Office of Income Taxation

**Communications & Training Branch** 



# Residency Tax Issues

Kentucky Forms 740-NP & 740-NP-R

# **Residency Tax Issues**

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# **DISCLAIMER**

Every effort and care has been taken in the preparation of this manual. However, the possibility of mechanical and/or human error does exist. The information provided is for educational purposes only and nothing herein constitutes the provision of legal advice or services.

In the event that any information in this manual is later determined to be in error, this manual cannot be used by taxpayers in supporting a specific position or issue before the Department of Revenue as it does not have the statutory and regulatory authority.

#### **Residency Issues**

#### Form 740-NP

Form 740-NP is used by taxpayers who are full-year nonresidents and taxpayers who have moved into or out of Kentucky during the year. Form 740-NP must be used by full-year nonresidents who had income from Kentucky sources and by part-year residents who had income while a Kentucky resident or from Kentucky sources while a nonresident.

When determining who should file a 740-NP, you must first determine the taxpayer's residency status with the Commonwealth of Kentucky.

#### **Definition of Residency**

KRS 141.010(17) states "'Resident' means an individual domiciled within this state or an individual who is not domiciled in this state, but maintains a place of abode in this state and spends in the aggregate more than one-hundred eightythree (183) days of the taxable year in this state; . . ."

KRS 141.010(18) states "'Nonresident' means any individual not a resident of this state;..."

To be a nonresident, a person must not have a permanent residence in Kentucky and must spend fewer than 183 days in Kentucky. If a person establishes a temporary residence in the state and spends more than 183 days in Kentucky during the taxable year, he is considered a Kentucky resident for income tax purposes from the time such person moved into Kentucky.

**103 KAR 17:060** states that individuals are taxed based on the following residency situations:

- ➤ <u>Residents</u> Entire net income of a full-year resident is subject to tax regardless of the source. (File **Form 740** or **740-EZ**).
- ➤ <u>Nonresidents</u> All income from a Kentucky source is subject to tax. Incomes from sources outside of Kentucky are not subject to tax, nor are losses incurred outside Kentucky deductible.
  - o Income from Kentucky sources is defined as income from all real
    - property and tangible property located in Kentucky, income from intangible property which has a business situs (presence) in this state, and income from business, trade, profession, occupation or other activities carried on in this state, including Kentucky gambling winnings.

# Audit Tip:

It is the Department's position that college students who are domiciled outside Kentucky and in fact pay out-of-state tuition, will be considered Kentucky residents if they have spent more than 183 days in Kentucky during the taxable year.

- New Resident A resident moving into Kentucky during the year is subject to tax on income received from Kentucky sources prior to becoming a resident and on income from all sources after becoming a resident.
- Taxpayers Leaving Kentucky A resident moving out of Kentucky during the year is subject to tax on income received from all sources while a resident and from Kentucky sources while a nonresident.

#### **Domicile**

Generally, a domicile is the place where an individual has established permanent residence. Once obtained, domicile continues until a new one is acquired. Domicile is not changed by an individual leaving the residence for a definite period or for incidental purposes. An individual can only have one place of domicile, but it is possible for a person to have established taxable residency status in more than one state for income tax purposes.

Determining a person's domicile can be very difficult. To constitute a change of domicile there must be a new abode, actual removal, and intent to change (Regulation 103 KAR 17:010, Section 3).

- (1) New Abode—an abode is a place where one "dwells, lives or stays." This is the easiest to determine because it addresses the fact that an individual must establish a new place to live to change domicile. However, in order for domicile to be impacted, the taxpayer's change in where they are living must be a permanent change.
- (2) Actual Removal—has the individual moved them self from the residence and into the new residence? Did they move their personal belongings into the new residence? Did they dispose of the old residence?
- (3) Intent of Change—determining intent of change is the most difficult of the criteria to evaluate because there is no set method for making this determination. You must look at as many factors as you can to get a clear picture of the individual's intent.

#### **Intent of Change – Factors**

The following are some of the factors that may be considered when making the determination if a taxpayer has established intent to change:

- 1) Where does the individual say their domicile is located? What is the history of their story?
- 2) Where do they work and what are the circumstances of their employment? Where is their permanent place of employment? Do the circumstances of their new abode revolve around temporary employment?
- Where are they registered to vote? 3)
- Where do they have their motor vehicle licensed? 4)
- In what state do they have their driver's license? 5)
- Where do they receive their mail? If they receive their mail in more than 6) one place, where do they receive their important personal and financial documents?
- 7) Where do they manage their financial transactions (i.e. banking)?
- With whom do they obtain insurance and what address do they use for 8) automobile and life insurance?
- At what location have they obtained a personal cell phone? 9)

#### **Examples of domicile:**

A taxpayer's house is in Ashland, Kentucky (where the taxpayer's spouse and pets stay). The taxpayer stays in a rented apartment and works in Texas. The taxpayer returns to Kentucky every other weekend and on all holidays. The taxpayer's domicile is in Kentucky and, therefore, is a full-year Kentucky resident. It is obvious that the taxpayer did not intend to make Texas a permanent home. The taxpayer would file Form 740. The taxpayer

# Audit Tip:

Although the taxpayer spent less than 183 days in Kentucky, his domicile had not changed and he is still considered a fullyear resident.

would not get credit for taxes paid to the other state because Texas does not have an income tax.

- A single taxpayer comes to Kentucky from Alabama to work for three months. He rents an apartment in Kentucky for the three-month period and returns to Alabama after his work in Kentucky is completed. This taxpayer's domicile is in Alabama and the taxpayer is a nonresident of Kentucky. He would be required to file Kentucky Form 740-NP and report the income earned from the Kentucky source.
- A married taxpayer sells his home in Kentucky and moves his entire family with him to Florida where he purchases a new home. His domicile is now Florida and he is a resident of Kentucky for the period prior to moving to Florida. He would be required to file Form 740-NP. (Part-year resident leaving Kentucky.)
- A taxpayer moves from her apartment in New York in May and brings her only child with her to Lexington, Kentucky. She enrolls her child in Tates Creek High School while she secures a job at Centre Bank in Lexington. She has no intention of returning to New York. This taxpayer's domicile is now

in Kentucky, and she is a Kentucky resident. She would file Form 740-NP as a part-year resident. (Part-year resident moving into Kentucky.)

- The taxpayer is a resident of Louisville where he has lived his entire life and is employed as a mechanical engineer. His company sends him to South Carolina for a two-year job on a construction project at their new plant. He rents his home for the two years, but intends to return once the job is completed. The taxpayer is domiciled in Kentucky for the entire period and would file Form 740.
  - The taxpayer is a full-year Kentucky resident even though he may not have spent any time in Kentucky. The taxpayer would file Form 740 and take advantage of the taxes paid to other state credit.

#### **Individual Residing in Foreign Country**

An individual residing in a foreign country, who is permitted to file federal income tax returns as a nonresident citizen, and who immediately prior to residing in a foreign country was domiciled in Kentucky, is presumed to be a Kentucky resident (see 103 KAR 17:010 Section 4).

This taxpayer is required to file a resident Kentucky income tax return. A citizen of the United States is a resident of one state. Therefore, if the individual resided in Kentucky prior to residing in a foreign country, such individual is considered a Kentucky resident. Such individual may, however, overcome this presumption by presenting sufficient evidence that the Kentucky domicile has been abandoned.

Examples would include: sold Kentucky property; closed Kentucky bank accounts; returns only for short visits with friends and family; removed personal belongings, etc.

#### **Reciprocity**

Reciprocity is defined as the mutual exchange of privileges between two governments. In the case of state income tax, the privilege is not being taxed in two different states on the same income. This agreement exists between

Kentucky and seven other states, allowing taxpayers who live in one of the states, but work in another to file an income tax return only with their state of residence.

As an example, if a taxpayer lives in Indiana, but travels to work in Louisville, Kentucky everyday, that taxpayer is afforded the ability to file only an Indiana state tax return. The taxpayer's employer does not have to withhold income tax from their wages; however, the employer may choose to withhold tax.

# Audit Tip:

Reciprocity only applies to wage and salary income. Reciprocity does not apply to other types of income, such as gambling winnings or business income. If the taxpayer has any income other than wages or salary, they must file **Form 740-NP** and claim credit for taxes paid to other state.

If the employer chooses to withhold tax, the taxpayer would file Kentucky Form 740-NP-R to receive a full refund of their Kentucky withholding. The taxpayer must also submit a copy of his Indiana tax return to verify that he is, in fact, filing an Indiana state tax return and claiming this income.

A taxpayer can determine where state tax was reported and how much was paid in withholding by referencing boxes 15 and 17 on their W-2(s). Box 15 will list the state in which the income was reported and box 17 will show the amount of withholding that was paid to that state.

# Audit Tip:

Reciprocity does not apply to any taxpayer who spends more than 183 days in Kentucky during the tax year.

#### **Certificate of Nonresidence**

If a taxpayer lives in a reciprocal state and works in Kentucky, the taxpayer may file a **Certificate of Nonresidence Form 42A809** with his employer. This allows the employer to no longer withhold Kentucky state tax, relieving the taxpayer of any filing obligation with Kentucky on the wage income earned with that specific This does not, however, relieve the taxpayer from Kentucky tax filing requirements with any other type of income or income from any other W-2.

#### 740-NP-R

Form 740-NP-R is used for nonresidents of states that have a reciprocity agreement with Kentucky (see list and map that follow). Reciprocity agreements state the taxpayer will be taxed by the state of residence and not by Kentucky, where the income is earned. Because this taxing situation is straightforward, the 740-NP-R is one of the most basic income tax forms that the Kentucky Department of Revenue makes available.

In addition to completing the demographic information at the top of the form, the taxpayer will need to answer two questions about his residency (three if he is a resident of Virginia). Answering "no" to any of these questions will result in the taxpayer not being eligible to file a 740-NP-R. Taxpayers who must answer "no" to even one of the questions must file a 740-NP.

After answering "yes" to all of the applicable questions, the taxpayer must enter the name and address of their employer in Kentucky in which Kentucky income tax was withheld. If the taxpayer has more than one employer in Kentucky, that taxpayer must complete and attach a list of all of their Kentucky employers. The taxpayer must also attach the W-2(s) of all Kentucky employers and attach a copy of his return that is filed with his state of residence. A copy of the 2010 740-NP-R has been included for your reference.

#### 740-NP-R

42A740-NP-R Department of Revenue



# KENTUCKY INCOMETAX RETURN



ist name	70		-		- i		
	Your firs	t name and middle initial	Your Social Security		/ no. Did you file a Kentuck tax return for 2009? \ No D. If no, give reas		
Number and street or P.O. box illing dress	Apt. no.	City, town or post office	State	ZIP code			
INSTRUCTIONS			**				
This form may be used by qualify 2010. To determine if you qualify, lines 1–6. Enter only the taxpaye Do not include your spouse's nan state, each spouse must file a se	you must ch r's name in w ne. If both spo	eck "Yes" or "No" for the which the Kentucky wages ouses earned only Kentuc	applicable and salari	statements be es were earne	elow. <i>If eligible,</i> d in the name b	complete ox above.	
A. I was a nonresident of Kentu					☐ Yes	□ No	
B. My only 2010 Kentucky income was from salaries or wages earned while a resident of any of the following states:     (circle state(s)) 1—Illinois 2—Indiana 3—Michigan 4—Ohio 5—Virginia 6—West Virginia							
Note: Race track, lottery and	other gambi	ing winnings are not sala	aries or wa	iges.			
For Virginia residents only:  C. I commuted daily to a place		☐ Yes	□ No				
Name Number and street					Kentucky tax forms can be downloaded. www.revenue.ky.gov		
City		State	Z IP co	de		est sceni	
Enter total Kentucky income tax	withhold Do	not include local tay withhel	Id		Ť	Ť	
Attach 2010 wage and tax states					• 1		
2. Nature and Wildlife Fund Contri	bution						
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3. Child Victims' Trust Fund Contri  □\$10 □\$25 □\$50 □ Other  4. Veterans' Program Trust Fund C  □\$10 □\$25 □\$50 □ Other  5. Breast Cancer Research/Educat  □\$10 □\$25 □\$50 □ Other  6. From line 1, subtract lines 2, 3,4	ontribution ionTrust Fund 4 and 5. Amou	Enter amount checke Contribution Enter amount checke nt to be REFUNDED	dd	•4	00 00 • 6		
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The form is available from the employer, the Kentucky Department of Revenue, Frankfort, KY 40620, or by visiting www.revenue.ky.gov

Kentucky's reciprocal agreement varies from state to state. The following is a list of the states with which Kentucky has a reciprocal agreement:

#### (1) Illinois

Residents of Illinois are exempt from Kentucky income tax on wages and salaries.

#### (2) Indiana

Residents of Indiana are exempt from Kentucky income tax on wages, salaries, and commissions.

#### (3) Michigan

Residents of Michigan are exempt from tax on income earned from personal services in Kentucky. Personal services include salaries and wages.

#### (4) Ohio

- > Residents of Ohio are exempt from Kentucky income tax on salaries and wages.
- Effective for calendar years beginning on or after January 1, 2007, the reciprocity agreement with Ohio does not apply to wages that an S corporation pays to a shareholder-employee if the shareholder-employee is a "twenty (20) percent or greater" direct or indirect equity investor in the S corporation.

# (5) Virginia

Virginia residents commuting daily to work in Kentucky are exempt from income tax on salaries and wages.

# (6) West Virginia

Residents of West Virginia are exempt from Kentucky income tax on salaries and wages.

# (7) Wisconsin

> Residents of Wisconsin are exempt from tax on income earned from personal services in Kentucky. Personal services include salaries and wages.

# **Income Tax Reciprocity**

States with which Kentucky has a Reciprocal Agreement



#### **Nonresident Shareholders**

For tax years beginning on or after January 1, 2009, every pass-through entity required to file a tax return pursuant to KRS 141.206(2) must withhold income tax at the maximum rate of six percent (6%) on the net distributive share income of each nonresident individual partner, member or shareholder doing business in Kentucky only through its ownership interest in a pass-through entity. This means that, even if a taxpayer is a nonresident of Kentucky, if he is a shareholder in a company that has Kentucky income, the company is required to withhold tax on that income, whether or not the nonresident files a Kentucky return.

#### Withholding is **NOT** required if:

- The nonresident partner, member or shareholder is exempt from withholding as provided by KRS 141.206(7);
- The nonresident partner or member is exempt from Kentucky income tax as provided by **KRS 141.040(1)**;
- > The pass-through entity is a qualified investment partnership as provided by KRS 141.206(15) and the nonresident partner, member or shareholder is an individual; or
- The partner or member is a pass-through entity.

The withholding is to be filed with the Department of Revenue on Form 740NP-WH, Kentucky Nonresident Income Tax Withholding on Net Distributive Share Income Transmittal Report and Composite Income Tax Return. When the corporation files the Form 740NP-WH, it must include Form PTE-WH, Kentucky Nonresident Income Tax Withholding on Net Distributive Share Income, for each nonresident individual partner, member or shareholder and each corporate partner or member included in Form 740NP-WH. At the time of filing, the corporation must also remit the income tax due.

A copy of Form PTE-WH must be provided to each nonresident individual partner, member or shareholder and each corporate partner or member included on Form 740NP-WH.

#### **Composite Returns**

For tax years beginning on or after January 1, 2009, a pass-through entity may file a composite income tax return as provided by KRS 141.206(16) on behalf of electing nonresident individual partners, members, or shareholders. As is the situation with withholding, the tax on a composite return is to be computed at the maximum rate of six percent (6%).

If the nonresident individual has **only** distributive share income from the passthrough entity, he is not required to file an individual Kentucky Income Tax Return. However, he may choose to file an individual return to take advantage of deductions, credits and Kentucky's graduated tax rates.

The composite income tax return is to be filed with the Department of Revenue on Form 740NP-WH (check composite income tax return box) on or before the 15th day of the fourth month after the close of the pass-through entity's taxable year, and shall include:

- > Only nonresident individual partners, members, or shareholders whose net distributive share income was not subject to withholding as provided by KRS 141.206(4);
- > Only nonresident individual partners, members, or shareholders whose only source of income within this state is net distributive share income from one or more pass-through entities;
- > Only nonresident individual partners, members, or shareholders that have elected to be included in a composite income tax return by submitting a written statement to the pass-through entity within thirty (30) days after the close of the pass-through entity's taxable year;
- Form PTE-WH (check composite box) for each nonresident individual partner, member, or shareholder included in the composite return; and
- Remittance of the income tax due.

**Note:** In prior tax years the composite return was filed on Kentucky Form 740-NP.

<b>740NP-WH</b> 40A201 (10-10)				ForTaxa Year End	led	
Check if Composite Income Tax Return Amended Return Estimated Payment Extension Payment Change of address	DIST	TUCKY NONRESIDENT INCOMETAX WITHHOLDING ON STRIBUTIVE SHARE INCOMETRANSMITTAL REPORT AND COMPOSITE INCOMETAX RETURN (To be completed by Pass-through Entities Only)				
(1) FEIN						
(2) Kentucky Corporation/LLET Account Number	5					
(3) Name of Pass-through Entity					-	
Street Address						
City		St	ate	ZIP C	ode	
(4) Number of nonresident individuals, estates, t	tructo and	Coorporations subject to withholding	4	254		
(5) Number of nonresident individuals, estates, t		7.	-			
(6) Kentucky distributive share income before ap			6	6	00	
(7) 100% or the apportionment factor from Sched		Č.				
line 12 (8) Kentucky distributive share income subject to withholding/income tax					%	
(line 6 multiplied by line 7)					00	
(9) Tax before credit (line 8 multiplied by .06 (6%))					00	
(10) Enter pass-through partners', members' or shareholders' non- refundable credits (attach schedule)					00	
(11) Kentucky income tax due (line 9 less line 10)					00	
(12) Amount paid (see instructions)					00	
(13) Balance of tax due. If line 11 is greater than line 12, enter line 11 less line 12.					00	
(14) Tax overpayment. If line 11 is less than line 12	2, enter lin	e 12 less line 11.	14	C.	00	
(15) Amount credited to 2011					00	
(16) Amount to be refunded (line 14 less line 15)			16	22	00	
Make check(s) or money order(s)	TAX PAYMENT SUN (Round to nearest					
payable to Kentucky StateTreasurer.		1. Tax (Line (13))	\$			
Mail to:		2. Penalty	\$			
Kentucky Department of Revenue		3. Interest	\$			
Frankfort, KY 40619-0006.		4. Total Payment	s			
I declare under the penalties of perjury that this by me and, to the best of my knowledge and be Print name of partner, member or shareholder	lief, it is t	rue, correct and complete.	and statemen	Harauga Angar (1944) ang	Date	
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		Telephone No.:				

#### **Completing the 740-NP**

The format of the Form 740-NP is based on the Form 740 and both forms are similar. However, because of the issues involved with residency, there are special considerations that are made on the Form 740-NP that are not found on the Form 740. Both forms begin with completing the demographic information of the taxpayer(s) filing the return. Aside from name and Social Security number, the taxpayer must select a filing status. On the Form 740-NP, there are three options for filing status.

#### **Filing Status**

As with all income tax returns, the legal liabilities of the taxpayers are affected by their choice of filing status. Married persons who file joint returns are jointly and severally liable for all income taxes due for the period covered by the return. If the taxpayer is married, he may file separate or joint returns. Most married persons pay less tax if separate returns are filed.

- Filing Status 1, Single—Taxpayers will use this filing status if they are unmarried, divorced, widowed, legally separated by court decree, or if they filed as "Head of Household" or "Qualifying Widow(er)" on their federal return.
- Filing Status 2, Married Filing Joint Return—Taxpayers will use this filing status if they and their spouse choose to file a joint return even if one spouse had no income. Filing a joint return means that both the taxpayer and their spouse will add their incomes together and report the total on page 4, Section D, Column B, Lines 1 through 34.
- Filing Status 3, Married Filing Separate Returns—if the taxpayer uses this filing status, the taxpayer and his spouse must file two separate tax forms. In other words, the husband's income is reported on one tax form, the

wife's on the other. When filing separate returns, the name and Social Security number of each spouse must be entered on both returns. The taxpayer will enter the spouse's Social Security number in the block provided, and enter the name on page 1, Line 3.

After completing the Residency Status section, you will notice that line seven of the 740-NP directs taxpayers to use the percentage from page four of the return. This means that the taxpayer must first complete page four before he can continue his return.

#### 740-NP – Page Four

Nonresidents and part-year residents are taxed in Kentucky based on their percentage of income taxable to Kentucky as it relates to their total federal income. Page four serves as the tool taxpayers use to determine this percentage.

Because the taxpayer is determining what income is reportable to Kentucky based on his total income, page four follows the federal income tax Form 1040 and has two columns. All entries in Column A should be amounts reported for federal income tax purposes. All entries in Column B should be the amounts that are reportable to Kentucky only.

# **Audit Tip:**

The percentage figured on page four is also used when calculating certain credits and deductions on the *Kentucky Form 740-NP. A copy of pages one and two* of the federal income tax return and all supporting schedules should be filed with Kentucky Form 740-NP.

#### Page Four – Income

While many of the items that are categorized as income are self explanatory, the following types of income have special issues associated with them, and therefore bear further explanation.

#### Wages, Salaries, Tips, etc.

The taxpayer will enter all wages, salaries, tips, bonuses, commissions, or other compensation received for personal services from Kentucky sources while a nonresident and from all sources while a resident of Kentucky. The taxpayer should not include in this amount any reimbursement for moving expenses included in Kentucky wages on their Kentucky W-2(s).

#### **Moving Expenses**

Taxpayers claiming moving reimbursement as income must file a Kentucky **Schedule ME.** The taxpayer's residency status directly affects how this schedule is completed.

- Full-Year Nonresidents—If the taxpayer is a full-year nonresident, his moving expense reimbursements are not taxable, and his moving expenses are not deductible.
- > Part-Year Residents—If the taxpayer is a part-year resident, any payments to him or on his behalf by any employer for moving expenses are considered income. These payments will be included in wages (box 1) or will be shown separately on his W-2.

Taxpayers who were residents of Kentucky for only part of the year are required to report as income only part of the total reimbursement received. The amount which must be reported to Kentucky as income is based on the percentage of Kentucky earned income to total earned income. Earned income is income the taxpayer received for services he provided. It includes wages, salaries, tips, etc. It also includes income earned from self-employment (Schedules C, C-EZ and F and partnerships).

#### **Examples:**

1) Joe Smith lived in Ohio and worked for Company A from January 1, 2010, until May 31, 2010. At that time, Mr. Smith was transferred to Company A in Kentucky. Since the location was more than 100 miles away, Joe moved to Kentucky. His company reimbursed him 100 percent (100%) of the relocation expenses.

How would this reimbursement be treated on his tax return?

Both the expenses and the reimbursement would be prorated by the ratio of the Kentucky earned income to the total earned income. It would be necessary for **Schedule ME** to be completed and attached to **Form 740-NP** to verify the reimbursement amount.

Jim Brown and his family have lived in Kentucky all of their lives. 2) However, his employer, Company B, needs Jim to move to Boulder, Colorado, to work at their plant. On March 31, 2010, Jim and his family pack up and move to Boulder. The company reimburses Jim for the majority of the cost of the move.

How would the deduction and reimbursement for this move be treated on the return?

The reimbursement would be treated the exact same way as the first example, i.e., both the expenses and reimbursement would be prorated by the ratio of the Kentucky earned income to the total earned income as shown on Form 740-NP.

#### Taxable Refunds, Credits or Offsets of Local Income Taxes

The taxpayer will enter the amount of taxable state and local income tax refund or credit reported on his federal return **only if** he received a tax benefit in a prior year.

#### Income from Schedule C

All nonresidents are required to report to Kentucky any amount of business income earned in Kentucky. Also, all part-year residents are required to report any business income earned while a resident of Kentucky, regardless of the source, plus any amount of business income earned in Kentucky as a nonresident. Enter income (or loss) from any sole proprietorship business that was attributable to Kentucky on Line 7, Column B.

#### Income from Schedule F

All nonresidents are required to enter any income (or loss) from farm activity located in Kentucky. Likewise, part-year residents are required to report all farm income or loss received while a resident of Kentucky or any farm income or loss after leaving Kentucky if the farm income is derived from a Kentucky source. Remember that the National Tobacco Settlement and Tobacco Loss Assistance Program incomes are exempt for Kentucky tax purposes.

# Gain or (Loss) from Sale or Exchange of Assets

Gains (losses) on sales of assets (including installment sales) while a Kentucky resident must be reported on the Kentucky return. Gains (losses) on sales of tangible assets located in Kentucky must be reported regardless of state of residence. Generally, gains (losses) on sales of intangible assets are reported to the state of residence or the state in which a business situs has been established.

- > Determining and Reporting Differences in Gain or Loss from Disposition of **Assets**—If during the year the taxpayer disposes of assets placed in service after September 10, 2001, on which the 30 percent (30%) or the 50 percent (50%) special depreciation allowance or the increased Section 179 deduction was taken for federal income tax purposes, he will need to determine and report the difference in the amount of gain or loss on the assets as follows:
  - Create a Kentucky form by entering Kentucky at the top center of a federal Schedule D, federal Form 4797 and other applicable federal forms. Compute Kentucky gain or loss from the disposed assets using the Kentucky basis. Enter the Kentucky gain or loss on the appropriate line. Attach the created Kentucky Schedule D, Kentucky Form 4797 and other forms or schedules to support the deduction.

#### **Pension Income Exclusion**

Taxpayers may exclude up to \$41,110 of pension income. If the pension amount is more than \$41,110 and is from the federal government, the Commonwealth of Kentucky or Kentucky local governments, it is possible that the amount of pension excluded will be greater than \$41,110. In order to determine if a taxpayer will be eligible for additional pension income exclusion, it is necessary to complete **Schedule P**.

# Audit Tip:

A full-year nonresident will not have any pension income to report to Kentucky as this type of income is assigned to the state of domicile. A part-year resident will be taxed only on pension income received above the pension exclusion while domiciled in Kentucky.

Part-year residents are allowed to exclude all pension income received while a Kentucky resident up to the \$41,110 maximum, but need to remember to only report pension income received while a resident of Kentucky. Additional pension income in excess of the \$41,110 pension exclusion may also be exempt from Kentucky tax if that pension income is from certain sources (see the next page and **Schedule P** for additional details).

#### Types of Income Subject to Exclusion

All pension and retirement income paid under a written retirement plan is eligible for exclusion. This includes pensions, annuities, IRA accounts, 401(k) and similar deferred compensation plans, death benefits, and other similar accounts or plans. As a general rule, if the income is reported on the federal income tax return, Form 1040, line 15(b) or 16(b); Form 1040A, line 11(b) or 12(b); Form 4972; or is a disability retirement benefit or deferred compensation distribution reported on Form 1040, line 7 or 1040A, line 7, then it qualifies for the exclusion.

Taxpayers may exempt the federally taxable portion of pension income paid by the federal government, the Commonwealth of Kentucky, or any Kentucky local government. This also includes supplemental (Tier 2) U.S. Railroad Retirement Board benefits reported on Form 1040, line 16(b) (Form 1040A, line 12(b)) and federal or Kentucky disability retirement income included on federal Form 1040, line 7 or Form 1040A, line 7.

#### Income from Schedule E

Schedule E is used to report income from rents, royalties, partnerships, estates, trusts, S corporations and LLCs. Nonresident individuals receiving a Kentucky Schedule K-1 from a partnership, estate, trust, S corporation or LLCs doing business only in Kentucky must report their distributive share of the income, gains or losses, etc., as reflected on the **Schedule K-1**.

However, nonresident individuals receiving a Kentucky Schedule K-1 from a partnership or S corporation doing business both within/without Kentucky should multiply their distributive share items by the taxable percentage from **Schedule K-**1, Forms 720S and 765.

Part-year residents or full-year residents not receiving a Kentucky **Schedule K-1**, but receiving a federal **Schedule K-1** from a partnership, estate, trust, or S corporation, must report the same amount of distributive income, gains or losses,

etc., as reported for federal income tax purposes from entities whose taxable years end during their period of residence.

Income from real estate mortgage investment conduits (REMICs) is reported as follows: (1) if the REMIC is a corporation, include only distributions of cash or property during the taxable year; or (2) if other than a corporation, report the same amount as reported for federal income tax purposes for the taxable year.

#### **Net Operating Loss Deduction (Other Income)**

A Kentucky net operating loss deduction (KNOLD) must be computed using Kentucky income and deduction amounts. The federal net operating loss deduction is not allowed. The KNOLD should be included as a negative amount on Line 16. If the loss is from a business outside Kentucky, none of the loss may be used. Kentucky returns must be filed for the year of the loss and for all years for which the loss is utilized. The taxpayer must attach a schedule showing computation.

# Audit Tip:

For 2005 and future years, the carryback of net operating losses to prior years is no longer allowed. Net operating losses may be carried forward for up to 20 years. Documentation to substantiate any loss must be available to the Department of Revenue upon request.

#### Page Four – Adjustments to Income

While many of the items that are categorized as adjustments to income are taken directly from what is reported on **Form 1040**, the following adjustments include special issues and require further explanation.

#### **Health Savings Account (HSA) Deduction**

The following federal limitations apply to Kentucky:

- For 2012: \$3,100 maximum contribution for individual coverage; and \$6,250 for family coverage. \$1,000 for additional catch-up contributions for people age 55 or older.
- For 2011: \$3,050 (individual), \$6,150 (family), and \$1,000 for catch-up contributions.
- For 2010: \$3,050 (individual), \$6,150 (family), and \$1,000 for catch-up contributions.
- For 2009: \$3,000 (individual), \$5,950 (family), and \$1,000 for catch-up contributions.
- For 2008: \$2,900 (individual), \$5,800 (family), and \$900 for catch-up contributions

Contributions to an HSA are tax deductible. Earnings, such as interest and dividends, in the health savings account are tax-exempt at the federal level. Withdrawals from a health savings account are tax free as long as the funds are used for qualified medical expenses. (See IRS Publication 502, Medical and Dental Expenses for further info on qualified medical expenses).

Contributions deducted by full-year nonresidents are limited to the percentage of their Kentucky total income (Line 17, Column B) to their federal total income (Line 17, Column A). Taxpayers may not claim their contribution amounts as an itemized deduction.

#### **Deduction for One-Half of Self-Employment Tax**

The taxpayer may deduct one-half of his self-employment tax based upon the self-employment income reported in Column B as Kentucky income for the taxable year.

#### Self-Employed SEP, SIMPLE and Qualified Plans Deduction

Self-employed persons may deduct qualified payments to a Keogh retirement plan, a Simplified Employee Pension (SEP) or a SIMPLE plan based upon Kentucky self employment earnings.

#### **Student Loan Interest Deduction**

Taxpayers may deduct student loan interest on loans issued for themselves, his spouse (if filed jointly), and their dependents. There are income limitations for being able to claim this deduction.

#### Limits

Student loan interest deduction is limited to the percentage of Kentucky total income (Line 17, Column B) to federal total income (Line 17, Column A). The taxpayer will enter in Column A, the total of student loan interest from their federal return and will enter in Column B, the allowable deduction with Kentucky.

The maximum amount of student loan interest the taxpayer may claim as a tax deduction is limited to \$2,500.

The deduction is also limited by the taxpayer's total income. If his income is under \$60,000 (or \$120,000 for married couples filing a joint return), then he may deduct up to \$2,500 in student loan interest.

If his income is over \$60,000 but under \$75,000 (\$120,000 to \$150,000 for married people filing jointly), then the deduction for student loan interest will be prorated.

If his income is over \$75,000 (\$150,000 married filing jointly), then the student loan interest is not deductible at all.

#### **Long-Term Care Insurance Premiums**

Persons moving into and out of Kentucky may deduct the total of long-term care insurance premiums paid while a resident of Kentucky. Nonresidents are limited to the percentage of their Kentucky total income (Line 17, Column B) to their federal total income (Line 17, Column A). Because this adjustment to income applies only to Kentucky, you will note that this line is intentionally left blank on column A.

#### **Health Insurance Premiums**

Persons moving into and out of Kentucky may deduct 100% of medical and dental insurance premiums paid while a resident of Kentucky. Nonresidents are limited to the percentage of their Kentucky total income (Line 17, Column B) to their federal total income (Line 17, Column A). Because this adjustment to income applies only to Kentucky, you will note that this line is intentionally left blank on column A.

Insurance premiums paid by an employee through an employer-sponsored health insurance plan are not deductible unless the premiums are included in Box 1 of the W-2 Form(s). In other words, this deduction applies to premiums paid with

after-tax dollars. Premiums paid with pretax income (cafeteria plans and vouchers already excluded from wage income) are not deductible.

#### **Other Deductions**

The taxpayer will list any other adjustments to their total income on line 33 and include a brief explanation of the type of deduction in the space provided. Other deductions are limited to the percentage of Kentucky total income (Line 17, Column B) to federal total income (Line 17, Column A). The taxpayer must enter in Column A, the total of any other adjustments to the total income listed on his federal return. Enter in Column B, the allowable deduction with the above limitation.

#### 740-NP - Page One

#### **Personal Tax Credits**

> Part-year residents claim credits the same as full year residents but are required to take only the percentage of the total tax credits based on the Kentucky Adjusted Gross Income relative to Federal Adjusted Gross Income.

For example, three tax credits at \$20 each would equal \$60. If the Kentucky to Federal Adjusted Gross Income percentage were 30 percent (30%), you would multiply the \$60 by 30 percent (30%), which would result in an \$18 tax credit allowed. Married individuals who file separately would claim their own personal credits and may divide credits for dependents between them any way they choose.

> Single nonresidents and married nonresidents, where both have Kentucky income, take personal credit(s) the same as part-year residents. A special rule is provided for a married nonresident whose spouse has no Kentucky income. The taxpayer may claim his own tax

credits and apportion the credits by the ratio of his Kentucky AGI to his federal AGI. The taxpayer could also claim credits for himself, his spouse and dependents and would apportion the total credits by the ratio of their Kentucky AGI to the federal AGI of both spouses.

**Example:** A husband has wages of \$20,000 and \$10,000 of the \$20,000 was earned in Kentucky. His wife earns \$10,000 - none of it in Kentucky. They have three children. The husband can file in one of two ways:

- Option #1: The husband can claim himself only as dependent and receive 50 percent (50%) of his \$20 tax credit (\$10,000 Kentucky income to \$20,000 total income = 50%).
- Option #2: The husband can claim himself, his wife and 3 children as tax credits. He can receive 33.3 percent (33.3%) of \$100 (5 credits x \$20 each) tax credit. (Husband and wife total income = \$30,000 compared to husband's Kentucky income of \$10,000 = 33.3%).

#### **Itemized Deductions**

Part-year residents or full-year nonresidents may itemize deductions for Kentucky even if they do not itemize for federal purposes. Amounts entered on **Kentucky Schedule A** should be total deductions for the taxable period. These amounts are prorated on Form 740-NP using a ratio of Kentucky adjusted gross income to federal adjusted gross income. For taxpayers not itemizing deductions on Schedule A, the standard deduction may be taken in full and does not need to be prorated.

#### **Itemized Deductions of Married Persons Filing Separate Returns**

Married taxpayers may choose to file separate returns to take advantage of the lower tax rate brackets. If one spouse itemizes, the other must also itemize. In other words, it is not allowable for one spouse to claim itemized deductions and the other spouse to claim a standard deduction even if two separate returns are being filed. If married and filing separate returns, a joint Kentucky Schedule A should be used and prorated based on each spouse's share of Federal AGI with the applicable amounts reported on each spouse's separate return. Both spouses should attach a copy of the Kentucky Schedule A to their tax return.

Another option for married couples who wish to file separate Kentucky returns is that each may file a separate Kentucky Schedule A reporting specific deductions attributable for each. Each spouse must be able to substantiate the specific deductions claimed on their respective Kentucky Schedule A.

#### **Itemized Deductions for Nonresident Spouse of Kentucky Resident**

No exception exists for married persons when only one spouse is a resident of Kentucky. The resident spouse is allowed his or her pro-rata share of the joint itemized deductions. To calculate the resident's pro-rata share, the Kentucky taxpayer must calculate the percentage of his or her federal AGI to total federal AGI of both spouses.

**Example:** Husband's Federal AGI: \$55,000.00

> Wife's Federal AGI: \$23,500.00 **TOTAL Federal AGI:** \$78,500.00

Husband's percentage of Federal AGI is 70%

 $($55,000 \div 78,500 = 70\%)$ 

Therefore, 70 percent (70%) of the total itemized deductions reported by the married couple is reported on the husband's Kentucky income tax return. This amount is then prorated based on the percentage of his Kentucky AGI to his part of federal AGI.

#### **Family Size Tax Credit**

The Family Size Tax Credit is based on the taxpayer's modified gross income (MGI) and the size of his family. If his total MGI is \$29,327 or less, he may qualify for the Kentucky Family Size Tax Credit. The taxpayer will compute this credit as follows:

STEP ONE—Determine the taxpayer's family size. Check the box on Line 20 to the right of the number that represents his family size.

- Family Size Consists of the taxpayer, his spouse if married and living in the same household and qualifying children.
  - o Family Size 1 is an individual either single, or married living apart from his or her spouse for the entire year. The taxpayer may qualify for the Family Size Tax Credit even if he is claimed as a dependent on his parent's tax return.
  - o Family Size 2 is an individual with one qualifying child or a married couple.
  - o Family Size 3 is an individual with two qualifying children or a married couple with one qualifying child.
  - o Family Size 4 is an individual with three or more qualifying children or a married couple with two or more qualifying children.

Qualifying Dependent Child—Means a qualifying child as defined in Internal Revenue Code Section 152(c), and includes a child who lives in the household but cannot be claimed as a dependent if the provisions of Internal Revenue Code Section 152(e)(2) and 152(e)(4) apply.

In general, to be a taxpayer's qualifying child, a person must satisfy four tests:

Relationship—Must be the taxpayer's child or stepchild (whether by blood or adoption), foster child, sibling or stepsibling, or a descendant of one of these.

Residence—has the same principal residence as the taxpayer for more than half the tax year. A qualifying child is determined without regard to the exception for children of divorced or separated parents.

Age—Must be under the age of 19 at the end of the tax year, or under the age of 24 if a full-time student for at least five months of the year, or be permanently and totally disabled at any time during the year.

Support—did not provide more than one-half of his/her own support for the year.

STEP TWO—Determine modified gross income.

The taxpayer will use a worksheet in order to determine their modified gross income. Modified gross income may be different than his Federal or Kentucky Adjusted Gross income. The modified adjusted gross income takes into account all types of income, some that may be exempt from taxes in Kentucky. If this adjustment was not made, many high-income taxpayers that are not residents of Kentucky would owe no Kentucky tax. The worksheet follows:

	FORM 740-NP WORKSHEET FOR COMPUTATION OF MODIFIED GROSS INCOME FOR FAMILY SIZETAX CREDI
a)	Enter your federal adjusted gross income from page 1, Line 8. If zero or less, enter zero
b)	If married filing separate returns and living in the same household, enter your spouse's
	federal adjusted gross income. If zero or less, enter zero
c)	Enter tax-exempt interest from municipal bonds (non-Kentucky)(c)
d)	Enter amount of lump-sum distributions not included in federal adjusted gross income (federal Form 4972)(d)
1	Enter total of Lines (a), (b), (c) and (d)
)	Enter your Kentucky adjusted gross income from page 1, Line 9. If zero or less, enter zero
)	If married filing separate returns and living in the same household, enter your spouse's
	Kentucky adjusted gross income from page 1, Line 9. If zero or less, enter zero(g)
1)	Enter amount of lump-sum distributions not included in adjusted gross income (Kentucky Form 4972-K)(h)
)	Enter total of Lines (f), (g) and (h)(i)
)	Enter the greater of Line (e) or (i). This is your Modified Gross Income.
	Use this amount to determine if you qualify for the Family SizeTax Credit

STEP THREE—Use the Family Size Table to look up the percentage of credit and enter it in the space provided on Line 21.

Family Size	One		Two		Three		Four or More		Credit
If MGI	is over	is not over	is over	is not over	is over	is not over	is over	is not over	Percentage is
	\$	\$ 10,830	\$	\$14,570	\$	18,310	\$	\$22,050	100
	10,830	11,263	14,570	15,153	18,310	19,042	22,050	22,932	90
	11,263	11,696	15,153	15,736	19,042	19,775	22,932	23,814	80
0	11,696	12,130	15,736	16,318	19,775	20,507	23,814	24,696	70
7	12,130	12,563	16,318	16,901	20,507	21,240	24,696	25,578	60
<b>`</b>	12,563	12,996	16,901	17,484	21,240	21,972	25,578	26,460	50
0	12,996	13,429	17,484	18,067	21,972	22,704	26,460	27,342	40
N	13,429	13,754	18,067	18,504	22,704	23,254	27,342	28,004	30
	13,754	14,079	18,504	18,941	23,254	23,803	28,004	28,665	20
	14,079	14,404	18,941	19,378	23,803	24,352	28,665	29,327	10
	14,404		19,378		24,352		29,327		0

STEP FOUR—multiply tax from Line 19 by the percentage and enter it on Line 21. This is the Family Size Tax Credit.

### **Child and Dependent Care Credit**

If a taxpayer paid someone to care for his child, spouse, or dependent last year, he may be able to claim the Child and Dependent Care Credit on his federal income tax return. In order for the taxpayer to qualify for this federal credit, the following items must be kept in mind:

1. The care must have been provided for one or more qualifying persons. A qualifying person is the taxpayer's dependent child age 12 or younger when the care was provided. Additionally, the taxpayer's spouse and certain other individuals who are physically or mentally incapable of selfcare may also be qualifying persons.

- 2. The care must have been provided so the taxpayer and his spouse if they are married filing jointly – could work or look for work.
- 3. The taxpayer and his spouse if filing jointly must have earned income from wages, salaries, tips, other taxable employee compensation or net earnings from self-employment. One spouse may be considered as having earned income if he was a full-time student or was physically or mentally unable to care for himself.
- **4.** The payments for care cannot be paid to the taxpayer's spouse, to the parent of the qualifying person, to someone that can be claimed as a dependent on his return, or to his child who will not be age 19 or older by the end of the year even if he or she is not the taxpayer's dependent.
- 5. The taxpayer's filing status must be single, married filing jointly, head of household or qualifying widow(er) with a dependent child.
- **6.** The qualifying person must have lived with the taxpayer for more than half of 2010. There are exceptions for the birth or death of a qualifying person, or a child of divorced or separated parents. See IRS Publication 503, Child and Dependent Care Expenses for more information on this topic.
- 7. The credit may be up to 35 percent (35%) of the taxpayer's qualifying expenses, depending upon the adjusted gross income.
- 8. For 2010, the taxpayer may use up to \$3,000 of expenses paid in a year for one qualifying individual or \$6,000 for two or more qualifying individuals to figure the credit.
- 9. The qualifying expenses must be reduced by the amount of any dependent care benefits provided by the taxpayer's employer that may be deducted or excluded from his income.
- **10.** If the taxpayer pays someone to come to his home and care for his dependent or spouse, he may be a household employer and may have to withhold and pay Social Security and Medicare tax and pay federal unemployment tax. See Publication 926, Household Employer's Tax Guide.

KRS 141.067 provides a direct credit against Kentucky income tax equal to 20 percent (20%) of the federal credit allowed under IRC Section 21. Full-year nonresidents are not entitled to this credit.

Part-year residents may be entitled to a credit for child and dependent care expenses paid while a resident of Kentucky. For married, part-year residents filing separate Kentucky returns, the child and dependent care credit must be divided based on the percentage of each spouse's federal adjusted gross income to total Kentucky Adjusted Gross Income.

To determine the allowable credit, part-year residents must complete a worksheet. See instructions for Kentucky Form 740-NP.

#### **Credit for Income Tax Paid to Other State**

Kentucky residents are required to report all income received including income from sources outside Kentucky. Within certain limitations, Kentucky residents and part-year residents may claim a credit for nonrefundable income tax paid to other states per **KRS 141.070.** 

# KRS 141.070—Credits allowed individuals for tax paid to other states

(1) Whenever an individual who is a resident of this state has become liable for income tax to another state upon all or any part of his net income for the taxable year, derived from sources without this state and subject to taxation under this chapter, the amount of income tax payable by him under this chapter shall be credited on his return with the income tax so paid by him to the other state, upon his producing to the proper assessing officer satisfactory evidence of the fact of such payment, except that application of such credits shall not operate to reduce the tax payable under this chapter to an amount less than would have been payable were the income from the other state ignored.

(2) An individual who is not a resident of this state shall not be liable for any income tax under KRS 141.020(4) if the laws of the state of which such individual was a resident at the time such income was earned in this state contained a reciprocal provision under which nonresidents were exempted from gross or net income taxes to such state, if the state of residence of such nonresident individual allowed a similar exemption to resident individuals of this state. The exemption authorized by this subsection shall in no manner preclude the Department of Revenue from requiring any information reports pursuant to KRS 141.150(2).

Credit for tax paid to another state is claimed on Kentucky 740-NP, page two under Section A - Business Incentive and Other Tax Credits. This credit cannot be claimed for tax withheld by another state.

A return must be filed with the other state, and tax paid on income also taxed by Kentucky on the return in order to claim the credit. A copy of the other state's return must be attached to verify this credit along with the Kentucky Credit for Taxes Paid to Other State Worksheet which follows in this material.

The credit is **limited** to the amount of Kentucky tax savings had the income reported to the other state been omitted, or the amount of the tax paid to the other state, whichever is less. If tax is owed in more than one state, the credit for each state must be computed separately.

## **Full-year Nonresidents**

Credit for taxes paid to another state is not allowed as the taxpayer would not be reporting this income to Kentucky.

## **Part-year Residents**

Part-year residents may claim credit for taxes paid to another state if the income from the other state was received during the period of residency and is subject to Kentucky tax.

## Worksheet

The credit for taxes paid to other states has several variables and depends on comparing the rate at which the income was taxed in the other state with the rate at which Kentucky is taxing that income. Because of these variables, the credit can be difficult to calculate; the Department of Revenue has provided taxpayers with a worksheet to help them understand the amount of credit they are allowed to claim.

	<b>Credit for Taxes Paid to Other States Worksheet</b>	
	ntucky residents/part-year residents only. Complete a separate worksheet te. See instructions for Form 740 or 740-NP, Section A, Line 4.	for each
Naı	me of other state	
1.	List Kentucky taxable income from Form 740-NP, Line 13	
2.	List any gambling losses from Schedule A, Line 31	
3.	Add Lines 1 and 2 and enter total here	
4.	List income reported to other state included on Kentucky return	
5.	Subtract line 4 from line 3 and enter total here	
6.	Adjusted gambling losses. Compute gambling losses allowed on Kentucky return if income from other state is ignored	
7.	Subtract Line 6 from Line 5 and enter total here	
8.	Enter Kentucky tax on income amount on Line 7	
9.	Enter Kentucky tax on income amount on Line 1	
10.	Subtract Line 8 from Line 9. This is the tax savings on return if other state's income is ignored	
11.	Enter tax paid to other state on income claimed on Kentucky return	
12.	Enter the lesser of Line 10 or Line 11. This is your credit for tax paid to other state. Carry this total to Form 740, Section A, Line 4	

## Filing an Amended Form 740-NP

An amended Form 740-NP must be filed by taxpayers who need to report changes on their original Form 740-NP. In order to do so, Form 740-NP must be completed with the correct income and the box marked "Check if Amended Return" located on the top center of the Form 740-NP must be checked.

# Audit Tip:

To obtain a refund, the taxpayer must file the amended return within four years of the last day prescribed by law (original due date/extended due date or the date the tax was paid, whichever is later).

## **Military Issues**

The Military Spouses Residency Relief Act (MSRRA) (Public Law 111-97) was signed into law on November 11, 2009. The MSRRA allows the same residency benefits permitted to military personnel under the Servicemembers Civil Relief Act (SCRA) to also apply to a military spouse's nonmilitary service income, under certain circumstances.

The MSRRA prohibits a servicemember's spouse from either losing or acquiring a residence or domicile for purposes of taxation because he or she is absent or present in any U.S. tax jurisdiction solely to be with the servicemember in compliance with the servicemember's military orders, if the residence or domicile is the same for the servicemember and the spouse.

The MSRRA also prohibits a spouse's income from being considered income earned in a tax jurisdiction if the spouse is not a resident or domiciliary of such jurisdiction when the spouse is in that jurisdiction solely to be with a servicemember serving under military orders.

Military spouses who fall under this law should file Form 740-NP Kentucky Individual Income Tax Nonresident or Part-Year Resident Return to request a refund of the Kentucky income tax withheld from his or her pay. The income

would not be reported as taxable on the Kentucky income tax return. To assist the department in identifying those returns, please write across the top of the return MILITARY SPOUSE. For 2010, those military spouses should file a new Form K-4 with his or her employer to claim the exemption from withholding of Kentucky income tax.

## Military Pay Income Tax Exemption

Effective for taxable years beginning on or after January 1, 2010, all military pay received by active duty members of the Armed Forces of the United States, members of reserve components of the Armed Forces of the United States, and members of the National Guard will be exempt from Kentucky income tax.

Provided the military member has no income other than military pay, he or she would not be required to file a Kentucky income tax return. The military pay exemption applies to all Kentucky military members regardless of where the member is stationed. Kentucky income tax should no longer be withheld from checks received for military pay, beginning January 1, 2010. If Kentucky income tax is incorrectly withheld from a soldier's military pay in 2010 and after, the Department of Revenue will refund the tax withheld.

# **Examples**

# Example 1

## **Fact Pattern:**

Donna Sommers is a full-year resident of Florida. However, her job as a traveling nurse requires her to earn income in multiple states. As a result, Donna Sommers spent October, November and part of December 2010 working in Berea, Kentucky.

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b Employer Identification numb 12-2234985	er (EIN)	199	3.55	ges, tips, other compensation	2 Federal Income	tax withheld
c Employer's name, address, a	nd ZIP code			.744 clai security wages	5,836 4 Social security	tay withheid
EPGEAUTES 444 SEETS 02001				.744		
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501 Bedford Ro				,744		
Lexington, KY 4	0504		7 So	cial security tips	8 Allocated tips	
d Control number			9 Ad	vance EIC payment	10 Dependent care	e benefits
e Employee's first name and in	Itla I Last name	Suff.	11 No	nqualified plans	12a	
Donna Sommer	s				d e	
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Lehigh Acres, F			14 Oth	er L	12c	
Er					G T	
					12d	
f Employee's address and ZIP of	code				d a	
15 State Employer's state ID	number 16 State wages, tips, etc	:. 17 State incor	ne tax	18 Local wages, tips, etc.	19 Local Income tax	20 Locality name
KY   0772489	6,951	883		6,951	139	BREA
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	and Tax nent	5070	1	Department	of the Treasury - Interna	I Revenue Service

740-NP 42A740-NP Department of Revenue For calendar yea	Check if return is:  Amended (Attach copy of original return.)  ar or other lexable year beginn	1 00 2 10 1 10 10 10 10 10 11 1 2 2 11 1 2 2 11 1 2 2 1 1 1 1	KENTUCKY INDIV INCOMETAX RE Nonresident or Part-Yes	TURN	<i>Kentuõ</i> <b>201</b>	
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		red return, give both names and initials.)				
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Page 2 of 4

REFUND/TAX PAYMENT SUMMARY		-	4 4 50	
31 Enter amount from page 1, line 30. This is your Total Tax Liability		• 31	117	00
32 (a) Enter Kentucky income tax withheld as shown on attached	883	Too		
2010 Form W-2(s) and other supporting statements	003	00		
(b) Enter 2010 Kentucky estimated tax payments • 32(b)		00		
(c) Enter 2010 refundable certified rehabilitation credit (KRS 141.382(1)(b)) • 32(c)		00		
(d) Enter 2010 film industry tax credit (KRS 141.383)		00		
(e) Enter Nonresident Withholding from Form PTE-WH, line 9 (KRS 141.206(4)(b)(1)) • 32(e)		• 33	883	Too
33 Add lines 32(a) through 32(e)		34	766	00
Fund Contributions; See instructions.				100
35 Nature and Wildlife Fund		00		
36 Child Victims' Trust Fund	36	00	ana ang pagaman	
37 Veterans' Program Trust Fund	37	00		
38 Breast Cancer Research/Education Trust Fund \$10 \$25 \$50 Other	38	00		
39 Add lines 35 through 38	L	39		100
40 Amount of line 34 to be CREDITED TO YOUR 2011 ESTIMATED TAX		• 40		00
41 Subtract lines 39 and 40 from line 34. Amount to be REFUNDED TO YOU		• 41	766	00
42 If line 31 is larger than line 33, enter ADDITIONAL TAX DUE		• 42		00
43 (a) Estimated tax penalty and/or interest. Check if Form 2210-K attached, • 43(a)	TATA	00		
(b) Interest • 43(b)		00		
(c) Late payment penalty • 43(c)		00		
(d) Late filing penalty • 43(d)		00		
44 Add lines 43(a) through 43(d). Enter here				1
		• 44		00
45 Add lines 42 and 44 and enter here. This is the AMOUNTYOU OWE	_	• 44 45		-
45 Add lines 42 and 44 and enter here. This is the AMOUNTYOU OWE	OWE	-	OFFICIAL USE ONLY	-
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						Page 3 of 4
SECTION B—PERSONAL TAX CRE  1 (a) Credits for yourself:  (b) Credits for spouse:	Check Regu	olar Check both if	65 or over Che	ock both if blind	Enter number of boxes checked on line 1	1
2 Dependents:  First name Lest name		Dependent's Social Security number	Dependent's relationship to you	Chack if qualifying child for family size tax credit	Enter number of dependants who     lived with you.     did not live with (see instruction     other depende	th you
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irst name Last name	Socia	Security number Fi	rst name	Last name	Social S	ecurity number
A copy of pages 1 and 2 of y				12-2-2-2-2-2-2-2-2-2-2-2-2-2-2-2-2-2-2-		
A copy of pages 1 and 2 of y the undersigned, declare under the best of my knowledge and be provisions of Regulation 103 K or all taxes accruing under this re	penalties of perjury t pelief, it is true, correc AR 17:020 will result i sturn.	hat I have examined t	oporting schedu Ihis return, includ understand and d payable to ua joi	les must be atta	nched to Kentucky F	statements, and ned return under d severally liable
	penalties of perjury to pelief, it is true, correct AR 17:020 will result in sturn.	hat I have examined t t and complete. I also n refunds being made	oporting schedu this return, includ understand and a payable to us joi	les must be atta ling all accompar agree that our ele ntly and in each o	nched to Kentucky f nying schedules and ction to file a combin f us being jointly and	statements, and ned return under d severally liable



Page 4 of 4

SECTION D INCOME	A.Total from Attach Federal Return	ed	B. Kentucky	
1 Enter all wages, salaries, tips, etc. (attach wage	41.744	1	C 051	
and tax statements) Do not include moving expense reimbursements		00	6,951	00
2 Moving expense reimbursement (attach Schedule ME)		00		00
3 Interest		00		00
4 Dividends,		00		00
5 Taxable refunds, credits or offsets of state and local income taxes	5 383	00		00
6 Alimony received	6	00		00
7 Business income or loss (attach federal Schedule C or C-EZ)	7	00		00
8 Capital gain or loss (attach federal Schedule D)	8	00		00
9 Other gains or losses (attach federal Form 4797)	9	00		00
10 (a) Federally taxable IRA distributions, pensions and annuities10	(a)	00		00
(b) Pension income exclusion (attach Schedule P if more than \$41,110)10	(b)		(	00
11 Rents, royalties, partnerships, estates, trusts, etc. (attach federal Schedule E)	11	00		00
12 Farm income or loss (attach federal Schedule F)	12	00		00
13 Unemployment compensation (see instructions)	13	00		00
14 Taxable Social Security benefits	14	00		
15 Gambling winnings	15	00		00
16 Other income (list type and amount)				
	16	00		00
17 Combine lines 1 through 16. This is your Total Income	17 42,127	00		00
ADJUSTMENTS TO INCOME			1000	
18 RESERVED	18	00		00
19 Certain business expenses of reservists, performing artists and				
fee-basis government officials (attach federal Form 2106 or 2106-EZ)	19	00	***************************************	00
20 Health savings account deduction (attach federal Form 8889)	20	00		00
21 Moving expenses (attach Schedule ME)	21	00		00
22 Deduction for one-half of self-employment tax	22	00		00
23 Self-employed SEP, SIMPLE, and qualified plans deduction	23	00		00
24 Self-employed health insurance deduction	24	00		
25 Penalty on early withdrawal of savings	26	00		00
26 Allmony paid (enter recipient's name and Social Security number)				
	26	00		00
27 IRA deduction	27	00		00
28 Student loan interest deduction	28	00		00
29 RESERVED	29	00		00
30 Domestic production activities deduction		00		00
31 Long-term care insurance premiums (see instructions)	1		Parada a de encontración de la companya de la comp	00
32 Health insurance premiums (see instructions)				00
33 Other deductions (list type and amount)				
		00		00
2 4 May 1 4 4 May 2 1 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4	13	00		00
		-		-00
35 Subtract line 34 from line 17. This is your Adjusted Gross Income	42,127	00	6,951	00
36 Divide line 35, Column B, by line 35, Column A. If amount is equal to or		0 959		- 9
greater than 100%, enter 100%. This is your Percentage of Kentucky	1	6	5 0/	
Adjusted Gross Income to Federal Adjusted Gross Income	6 =	<u> </u>	. 5 %	

## Example 2

#### **Fact Pattern:**

Butch and Paula Cassady, and their three children moved from Kentucky to Indiana on June 30, 2010. Butch is a partner in a company that has a presence in Kentucky and receives a Kentucky K-1 for income that is attributed to Kentucky. While living in Kentucky, Butch also worked for a company in which he earned a As a result, Butch received a W-2 from that company. wage.

740-NP 42A740-NP Department of Revenue For calendar year or other taxable year beginn	C SECULI DICTI OCCUMENTALI DELLE DICTI DICTI DELLE DELLE DELLE DELLE DELLE	KENTUCKY IN INCOMETAX Nonresident or Par	RETURN	201	
A. Spouse's Social Security Number	B. Your Social Security Number	375.20			***
304-52-1234	309-80-1324				
				*	
Name - Last, First, Middle Initial (Joint er combit					
Cassady, Butch and P	aula M.				
A Mailing Address (Number and Street or P.O. Box B	1 Apartment Number				43
E 3601 Dunbar Parkway	1				
L City, Town or Post Office	State ZIP Code				
Floyds Knob	IN 47119				
Troyds knob	IN 4/119				
FILING 1 Single		34 E33	LITICAL PAR		
STATUS 2 / Married, filing joi	nt return.	Designating \$2 w	III not change A. Spi	e your refund or te ouse B. Your	
1000	parate returns. Enter spouse's Social Security	Democratic	(1)	(4)	
instructions) number above an	d full name here,	Republican	(2)	√ (5)	✓
4 Full-year nonresi	dent. I did not live in Kentucky during the year, E	No Designatio		(6)	
NCOME/TAX	O D ON PAGES 2THROUGH 4 BEFORE COMPLE			1 2 3 4	5
	Column A. This is your Federal Adjusted Gross I			382,941	00
	Column B. This is your Kentucky Adjusted Gross			194,494	00
	prorate). Skip lines 11 and 12				00
	s from Kentucky Schedule A, Form 740-NP		TORONO		
	n line 7	1 11	25555		
사건 - 사람이 없으면 하면 없는 사람이 있는 사람들이 아니다.	his is your Taxable Income	2.0	- Name and	183,808	00
				10,694	00
			11000	6,018	00
	A. line 19			4,676	00
15 Enter amount from page 2, Section A				*1010	
Enter amount from page 2, Section 6 Subtract line 15 from line 14	s from page 3. Section B. line 4		16	1,0,0	
Enter amount from page 2, Section / Subtract line 15 from line 14	s from page 3, Section B, line 4	. • 17 100	16	1,0,0	
Enter amount from page 2, Section A  Subtract line 15 from line 14	······································	. • 17 100	16 00	4,625	00
Enter amount from page 2, Section 7  Subtract line 15 from line 14	s from page 3, Section B, line 4	. • 17 100 . 18 51	16 00 00 19	4,625	00
Enter amount from page 2, Section 7  Subtract line 15 from line 14	s from page 3, Section B, line 4	. • 17 100 . 18 51	16   00   00   19   • 20   1	4,625	4 🗸
Enter amount from page 2, Section 7, 16 Subtract line 15 from line 14	s from page 3, Section B, line 4	. • 17 100 . 18 51	16 00 00 19 · 20 1 1 · 21	4,625	<b>4</b> ✓ 00
Enter amount from page 2, Section 7, 16 Subtract line 15 from line 14	of from page 3, Section B, line 4	. • 17 100 . 18 51 and 21)and enter here	16 00 00 19 • 20 1 1 • 21 22	4,625 2 3 0	4√ 00 00
Enter amount from page 2, Section 7, 16 Subtract line 15 from line 14	s from page 3, Section B, line 4	. • 17 100 . 18 51 and 21)and enter here	16 00 00 19 · 20 1 1 22 · 23	4,625 2 3 0 4,625	00 00 00
Enter amount from page 2, Section 7, 16 Subtract line 15 from line 14	of from page 3, Section B, line 4	. • 17 100 . 18 51 and 21)	16 00 00 19 • 20 1	4,625 2 3 0 4,625 0	00 00 00 00
Enter amount from page 2, Section 7, 16 Subtract line 15 from line 14	s from page 3, Section B, line 4	. • 17 100 . 18 51 and 21)	16 00 00 19 • 20 1	4,625 2 3 0 4,625 0 4,625	00 00 00 00 00
Enter amount from page 2, Section 7  Subtract line 15 from line 14	of from page 3, Section B, line 4	. • 17 100 . 18 51 and enter here	16 00 19 20 1 22 2 23 24 25 26	4,625 2 3 0 4,625 0 4,625 0	00 00 00 00 00 00
Enter amount from page 2, Section 7  Subtract line 15 from line 14	of from page 3, Section B, line 4	. • 17 100 . 18 51 . 18 100 . 18 100 . 18 100 . 100	16 00 19 20 1 22 2 23 24 25 26 27	4,625 2 3 0 4,625 0 4,625 0 4,625	00 00 00 00 00
Enter amount from page 2, Section 7  Subtract line 15 from line 14	n line 7	. • 17 100 . 18 51 and enter here	16 00 00 19 • 20 1 22 • 23 24 • 25 26 • 27 28	4,625 2 3 0 4,625 0 4,625 0 4,625 0	00 00 00 00 00 00 00

FORM	740-NP	(2010)
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STREET, STREET, BALL	DESTERBITE DE LA CONTRACTOR DE LA CONTRA	#1510 B E (1) B B	ED RECEIVED TO A STATE OF
ann si n		왕왕 [1]	
9116 33 6 6 6		218	
III DE SER LIS		88 1111	III EE III E EI II EE E

Page 2 of 4

	FUND/TAX PAYMENT SUMMARY	31	4,625	00
	Enter amount from page 1, line 30. This is your lotal lax clability	31		100
32	(a) Enter Kentucky income tax withheld as shown on attached 2010 Form W-2(s) and other supporting statements	00		
	(b) Enter 2010 Kentucky estimated tax payments	00		
	(c) Enter 2010 refundable certified rehabilitation credit (KRS 141.382(1)(b)) • 32(c)	00		
	(d) Enter 2010 film industry tax credit (KRS 141.383)	00		
	(e) Enter Nonresident Withholding from Form PTE-WH, line 9 (KRS 141.206(4)(b)(1)) • 32(e)	00		
33		33	2,132	00
	If line 33 is larger than line 31, enter AMOUNT OVERPAID (see instructions)	34		00
	nd Contributions; See instructions.   (Enter amount(s) check	red)		
35	Nature and Wildlife Fund	00		
	Child Victims' Trust Fund	00		
37	Veterans' Program Trust Fund         \$10         \$25         \$50         Other         • 37	00		
38	Breast Cancer Research/Education Trust Fund \$10 \$25 \$50 Other 9 38	00	WHEN SHEET	7
	Add lines 35 through 38	39		00
	Allount of the 54 to be chebited to foot 2011 Edition to fax minutes for minut	• 40		00
	Subtract lines 39 and 40 from this 34. Amount to be first on be the one be th	• 41	0.402	00
	II III 51 is larger than line 55, eliter Abbinothe IAA box	42	2,493	00
43	(a) Estimated tax penalty and/or interest.  Check if Form 2210-K attached • 43(a) 193			
	(b) Interest	00		
	(c) Late payment penalty • 43(c)	00		
		00		
	(d) Late filing penalty • 43(d)	00	193	lor
	Add lines 43(a) through 43(d). Enter here	• 44	193 2,686	-
	Add lines 43(a) through 43(d). Enter here		2,686	-
	Add lines 43(a) through 43(d). Enter here	• 44	2,686 OFFICIAL USE ONLY	00
45	Add lines 43(a) through 43(d). Enter here	• 44	2,686 OFFICIAL USE ONLY	00
45	Add lines 43(a) through 43(d). Enter here	• 44	2,686 OFFICIAL USE ONLY	00
45 SE	Add lines 43(a) through 43(d). Enter here	• 44 45	2,686 OFFICIAL USE ONLY	O(
45 SE	Add lines 43(a) through 43(d). Enter here	• 44 45	2,686 OFFICIAL USE ONLY	oc oc
45 SE 1	Add lines 43(a) through 43(d). Enter here	• 44 45	2,686 OFFICIAL USE ONLY	00 00
\$E 1 2	Add lines 43(a) through 43(d). Enter here	• 44 45	2,686 OFFICIAL USE ONLY	00 00
45 SE 1 2	Add lines 43(a) through 43(d). Enter here	• 44 45 1 2	2,686 OFFICIAL USE ONLY	00 00 00
45 SE 1 2 3 4	Add lines 43(a) through 43(d). Enter here	1 2 3	2,686 OFFICIAL USE ONLY	00 00 00 00
45 SE 1 2 3 4 5	Add lines 43(a) through 43(d). Enter here	1 2 3 4	2,686 OFFICIAL USE ONLY	00 00 00 00 00
45 SE 1 2 3 4 5 6	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5	2,686 OFFICIAL USE ONLY	00 00 00 00 00
SE 1 2 3 4 5 6 7	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6	2,686 OFFICIAL USE ONLY	00 00 00 00 00 00
SE 1 2 3 4 5 6 7 8	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8	2,686 OFFICIAL USE ONLY	00 00 00 00 00 00 00
SE 1 2 3 4 5 6 7 8 9	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9	2,686 OFFICIAL USE ONLY	00 00 00 00 00 00 00
SE 1 2 3 4 5 6 7 8	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10	2,686 OFFICIAL USE ONLY	00 00 00 00 00 00 00 00
45 1 2 3 4 5 6 7 8 9 10 11	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10 11	2,686 OFFICIAL USE ONLY	00 00 00 00 00 00 00 00 00 00 00
SE 1 2 3 4 5 6 7 8 9 10 11 12	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10 11 12	2,686 OFFICIAL USE ONLY	00 00 00 00 00 00 00 00 00 00
45 1 2 3 4 5 6 7 8 9 10 11 12 13	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10 11 12 13	2,686 OFFICIAL USE ONLY	00 00 00 00 00 00 00 00 00 00
SE 1 2 3 4 5 6 7 8 9 10 11 12 13 14	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10 11 12 13 14	2,686 OFFICIAL USE ONLY	00 00 00 00 00 00 00 00 00 00 00 00 00
SE 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10 11 12 13	2,686 OFFICIAL USE ONLY	00 00 00 00 00 00 00 00 00 00 00 00 00
SE 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10 11 12 13 14	2,686 OFFICIAL USE ONLY	00 00 00 00 00 00 00 00 00 00 00 00 00
SE 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15	2,686 OFFICIAL USE ONLY	000 000 000 000 000 000 000 000 000 00
SE 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17	Add lines 43(a) through 43(d). Enter here	9 10 11 12 13 14 15 16	2,686  OFFICIAL USE ONLY  F	000 000 000 000 000 000 000 000 000 00

ORM 74	40-NP (201	0)					Pé	age 3 of 4
SECTION I	B-PERSONA	L TAX CREDITS	Check Regular Check both	if 65 or over CI	neck both if blind	100000000000000000000000000000000000000		
	edits for your					1 Enter numbe boxes checke on line 1	d	2
2 Depen	dents:					2 Enter numbe		
-				Dependent's	Check if qualifying	dependents v	who:	3
First nan	18	Lastname	Dapendent's Social Security number	refationship to you	child for family size tex credit	tived with y		
Sco		Cassady	311-08-3333		V	did not live     (see instruction)		
	istine	Cassady	306-06-1444			other deper	ndonte	
Во		Cassady	300-96-5557	7 Child		- other deper	ilianio E	
el <del>l</del> attecht	105		*			-		
3 Add lin	nes 1 and 2 ar	nd enter here			***************************************		• 3	5
Multip	Lancard H.		ere and on page 1, line 17				4	x \$20 100
ection B.)		ZETAX CREDIT (List t	the name and Social Security	number of qualify	ing children that	1	dependen	
Section B.)	Lş	est name	Social Security number	First name	Last name	Soci	lal Security nu	ember
A copy  the unde o the best he provision all taxes	r of pages 1 a rsigned, decl of my knowle ons of Regula s accruing un	and 2 of your federa are under penalties o	1 1	First name supporting schede d this return, incluse ounderstand and	Lest name ules must be at	tached to Kentuck	nd statem not statem	ents, and an under
A copy  the under the provision all taxes	r of pages 1 a rsigned, decli of my knowle ons of Regula s accruing un	and 2 of your federa are under penalties o adge and belief, it is to tion 103 KAR 17:020 to der this return.	Social Security number  I income tax return and all s  If perjury that I have examiner  rue, correct and complete. I als  will result in refunds being ma	eupporting sched d this return, incluse ounderstand and de payable to us jo	Last name  ules must be at  ding all accompa agree that our e  ointly and in each	tached to Kentuck anying schedules a election to file a com of us being jointly	nd statem not statem	ents, and an under
A copy  the unde o the best he provision all taxes  four Signatus	r of pages 1 a rsigned, decli of my knowle ons of Regula s accruing un	and 2 of your federal are under penalties o odge and belief, it is to tion 103 KAR 17:020 o ider this return.	Social Security number  I income tax return and all s  If perjury that I have examiner  rue, correct and complete. I als  will result in refunds being ma	eupporting sched d this return, incluse ounderstand and de payable to us jo	Last name  ules must be af  ding all accomp. I agree that our e  ointly and in each	tached to Kentuck anying schedules a election to file a com of us being jointly	nd statem	ents, and an under
A copy  , the unde othe best he provision all taxes  four Signature of the provision all taxes of taxes of taxes of the provision all taxes of taxe	r of pages 1 a rsigned, decli of my knowle ons of Regula s accruing un	and 2 of your federa are under penalties o adge and belief, it is to tion 103 KAR 17:020 of der this return.	Societ Security number  I income tax return and all s  If perjury that I have examined  The correct and complete. I als  Will result in refunds being man  Spouse's Signature	Eupporting sched	Last name  ules must be at  ding all accompa agree that our e pintly and in each	tached to Kentuck anying schedules a election to file a com of us being jointly	nd statem	ents, and an under
A copy  the under the provision all taxes	r of pages 1 a rsigned, decl of my knowle ons of Regula s accruing un re (III joint return	are under penalties odge and belief, it is traition 103 KAR 17:020 vider this return.	Social Security number  I income tax return and all s  If perjury that I have examined  Tue, correct and complete, I als  Will result in refunds being ma  Spouse's Signature  I.D. Number of Po	eupporting sched	Last name  ules must be at  ding all accompagnee that our e plintly and in each  Date Signed  Date  Date	tached to Kentuck anying schedules a election to file a com of us being jointly	nd statem	ents, and an under



Page 4 of 4

	TION D DME		A.Total from Aftache Federal Return	d	* B.Kentucky	
1 1	Enter all wages, salaries, tips, etc. (attach wage		25,995		15,583	1,,
	and tax statements) Do not include moving expense reimbursements		25,995	00	15,565	00
	Moving expense reimbursement (attach Schedule ME)	All Control of Spinish	C1.F	00	307	00
3	Interest	3 -	615	00		00
4	Dividends	4  -	1,680	00	840	00
5	Taxable refunds, credits or offsets of state and local income taxes	5		00		00
6	Alimony received	6		00		00
7 1	Business income or loss (attach federal Schedule C or C-EZ)	7		00		00
8	Capital gain or loss (attach federal Schedule D)	8	735	00	735	00
9	Other gains or losses (attach federal Form 4797)	9 _		00		00
10	(a) Federally taxable IRA distributions, pensions and annuities	10(a)		00		00
1	(b) Pension Income exclusion (attach Schedule P if more than \$41,110)	10(b)			1	00
11	Rents, royalties, partnerships, estates, trusts, etc. (attach federal Schedule E	7) 11	415,111	00	207,591	00
12	Farm income or loss (attach federal Schedule F)	12		00		00
13 1	Unemployment compensation (see instructions)	13		00		00
14	Taxable Social Security benefits	14		00		
15	Gambling winnings	15		00		00
16	Other income (list type and amount)	_				
	THE TYPE I TOWNS I	16		00	35	00
17 (	Combine lines 1 through 16. This is your Total Income	17	444,136	00	225,091	00
ADJ	USTMENTS TO INCOME					
18	RESERVED	18		00		00
	Certain business expenses of reservists, performing artists and fee-basis government officials (attach federal Form 2106 or 2106-EZ)	19		00		00
20	Health savings account deduction (attach federal Form 8889)	20		00		00
21	Moving expenses (attach Schedule ME)	21		00		00
22	Deduction for one-half of self-employment tax	22	12,195	00	6,097	00
	Self-employed SEP, SIMPLE, and qualified plans deduction		49,000	00	24,500	00
	Self-employed health insurance deduction			00		
	Penalty on early withdrawal of savings			00		00
	Alimony paid (enter recipient's name and Social Security number)				// // // // // // // // // // // // //	
		26		00		00
27 1	IRA deduction	27		00		00
28	Student loan interest deduction	28		00		00
29	RESERVED	29		00		00
	Domestic production activities deduction			00		00
	Long-term care insurance premiums (see instructions)	- S				00
	Health insurance premiums (see instructions)					00
	Other deductions (list type and amount)					
		33		00		00
34	Add lines 18 through 33. Total Adjustments to Income		61,195	00	30,597	00
25	Cultural line 24 from line 17. This is your Adjusted Con-	26	382,941	00	194,494	00
_	Subtract line 34 from line 17. This is your Adjusted Gross Income Divide line 35, Column 8, by line 35, Column A. If amount is equal to or	30		- 00		100
	greater than 100%, enter 100%. This is your Percentage of Kentucky		-		•	
	Adjusted Gross Income to Federal Adjusted Gross Income	36	_ 5		. 8 %	

# Example 3

## **Fact Pattern:**

Rhianna Stewart is a full-year resident of Indiana. Rhianna is the sole proprietor of a cleaning business in which she receives the majority of her income. The cleaning business has several clients in Kentucky.

740-NP 42A740-NP Department of Revenus For calendar year or other taxable year begi	1.7	INC	TUCKY IND OMETAX R ent or Part-		<i>Kentuč</i> 201	的
A. Spouse's Social Security Number	B. Your Social Security Number					
	222-66-3339					
Name-Last, First, Middle Initial (Joint or con  Stewart, Rhianna						
A Mailing Address (Number and Street or £0.8 B 1701 N. Tilton Ave	ox) Apartment Number					
City, Town or Peat Office  Muncie	State ZIP Code IN 47304					
Manore	IN 47304					
000	oint return. eparate returns. Enter spouse's Social Security and full name here.	Den Rep		A. Spousi (1) (2) (3)	ur refund or ta e B. Your (4)	
of wages and	Kentucky / / 10 State more of a reciprocal state with Kentucky income salaries only. Circle the state of residence.	oved to	IL IN		va wv w	<u>/ </u>
COMPLETE SECTIONS A, B, CA	ND D ON PAGES 2THROUGH 4 BEFORE COMPLET	TING LINES	THROUGH :	20	FICIAL USE ONL	200
NCOME/TAX			THROUGH:	20		220
NCOME/TAX 7 Enter percentage from page 4, line	g 36	.> 7	27 . 3	% 1	2 3 4	5
NCOME/TAX 7 Enter percentage from page 4, lin 8 Enter amount from page 4, line 38	e 36 i, Column A. This is your Federal Adjusted Gross In	.> 7	27 . 3	% 8	2 3 4	00
NCOME/TAX 7 Enter percentage from page 4, line 38 8 Enter amount from page 4, line 38 9 Enter amount from page 4, line 38	e 36 , Column A. This is your Federal Adjusted Gross II , Column B. This is your Kentucky Adjusted Gross	.> 7	27 . 3	80. 1 % 8 9	2 3 4	00
NCOME/TAX 7 Enter percentage from page 4, line 38 8 Enter amount from page 4, line 38 9 Enter amount from page 4, line 38 Nonitemizers: Enter \$2,210 (do no	e 36	.> 7	27 . 3	80. 1 % 8 9	2 3 4	00
NCOME/TAX 7 Enter percentage from page 4, lin 8 Enter amount from page 4, line 38 9 Enter amount from page 4, line 38 10 Nonitemizers: Enter \$2,210 (do no 11 Itemizers: Enter itemized deduction	a 36, c, Column A. This is your Federal Adjusted Gross In c, Column B. This is your Kentucky Adjusted Gross t prorate). Skip lines 11 and 12 ns from Kentucky Schedule A, Form 740-NP	.> 7	9,820	86. 1 % 8 9 10	2 3 4	5
PARTIES NOOME/TAX  7 Enter percentage from page 4, line 8  8 Enter amount from page 4, line 38  9 Enter amount from page 4, line 38  0 Nonitemizers: Enter \$2,210 (do not litemizers: Enter itemized deduction Multiply line 11 by the percentage	a 36	.> 7	9,820	80. 1 % 8 9 10 00 00	2 3 4 110,028 30,038	000
NCOME/TAX  7 Enter percentage from page 4, line 8  8 Enter amount from page 4, line 38  9 Enter amount from page 4, line 38  0 Nonitemizers: Enter \$2,210 (do not litemizers: Enter itemized deduction Multiply line 11 by the percentage 3  Subtract line 10 or 12 from line 9.	a 36	> 7	9,820 2,681	80. 1 % 8 9 10 00 00 13	2 3 4 110,028 30,038	000
PROOME/TAX  7 Enter percentage from page 4, line 38  8 Enter amount from page 4, line 38  9 Enter amount from page 4, line 38  10 Nonitemizers: Enter \$2,210 (do not)  11 Itemizers: Enter itemized deduction  12 Multiply line 11 by the percentage  13 Subtract line 10 or 12 from line 9.  14 Enter tax from Tax Table	a 36	.> 7	9,820 2,681	80. 1 % 8 9 10 00 00 13 14	2 3 4 110,028 30,038	000
PART NCOME/TAX  7 Enter percentage from page 4, line 38  8 Enter amount from page 4, line 38  9 Enter amount from page 4, line 38  10 Nonitemizers: Enter \$2,210 (do not)  1 Itemizers: Enter itemized deduction  2 Multiply line 11 by the percentage  3 Subtract line 10 or 12 from line 9.  4 Enter tax from Tax Table	a 36	> 7	9,820 2,681	80. 1 % 8 9 10 00 00 13	2 3 4 110,028 30,038	000
PART NCOME/TAX  7 Enter percentage from page 4, line 38  8 Enter amount from page 4, line 38  9 Enter amount from page 4, line 38  10 Nonitemizers: Enter \$2,210 (do not litemizers: Enter itemized deduction Multiply line 11 by the percentage 3  11 Subtract line 10 or 12 from line 9.  12 Enter tax from Tax Table	a 36	> 7	9,820 2,681	80. 1  % 8 9 10 000 13 14 15	2 3 4 110,028 30,038 27,357 1,402	000
PARCOME/TAX  7 Enter percentage from page 4, line 38  8 Enter amount from page 4, line 38  9 Enter amount from page 4, line 38  10 Nonitemizers: Enter \$2,210 (do not litemizers: Enter itemized deduction itemizers: Enter itemizers itemized deduction itemizers: Enter amount from page 2, Section itemizers itemizers itemized itemized itemizers itemizers itemized itemizers itemizers itemizers itemizers itemizers itemizers itemize	a 36	> 7	9,820 2,681	80. 1  % 8 9 10 000 13 14 15 16	2 3 4 110,028 30,038 27,357 1,402	000
PARCOME/TAX  7 Enter percentage from page 4, line 38  8 Enter amount from page 4, line 38  9 Enter amount from page 4, line 38  10 Nonitemizers: Enter \$2,210 (do not litemizers: Enter itemized deduction Multiply line 11 by the percentage 3  11 Subtract line 10 or 12 from line 9.  12 Enter amount from page 2, Section Subtract line 15 from line 14	a 36	.> 7	9,820 2,681	80. 1  %  8  9  10  000  13  14  15  16  000	2 3 4 110,028 30,038 27,357 1,402	000
PACOME/TAX  7 Enter percentage from page 4, line 38 8 Enter amount from page 4, line 38 9 Enter amount from page 4, line 38 10 Nonitemizers: Enter \$2,210 (do not litemizers: Enter itemized deduction Multiply line 11 by the percentage 3 10 Subtract line 10 or 12 from line 9. 11 Enter tax from Tax Table	a 36	• 17 18	9,820 2,681 20 5	80. 1 % 8 9 10 00 00 13 14 15 16 00 00 19	2 3 4 110,028 30,038 27,357 1,402	000
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RCOME/TAX  7 Enter percentage from page 4, line 8 8 Enter amount from page 4, line 36 9 Enter amount from page 4, line 36 10 Nonitemizers: Enter \$2,210 (do not litemizers: Enter itemized deduction Multiply line 11 by the percentage 3 10 Subtract line 10 or 12 from line 9. 11 Enter tax from Tax Table	a 36	• 11 12 • 17 18 d 21)	9,820 2,681	80. 1  % 8 9 10 00 00 13 14 15 16 00 00 19 20 21	2 3 4 110,028 30,038 27,357 1,402 1,402 1,397 2 3 0	000
RCOME/TAX 7 Enter percentage from page 4, line 8 8 Enter amount from page 4, line 36 9 Enter amount from page 4, line 36 10 Nonitemizers: Enter \$2,210 (do not litemizers: Enter itemized deduction Multiply line 11 by the percentage 3 3 Subtract line 10 or 12 from line 9. 4 Enter tax from Tax Table	a 36	• 11 12 • 17 18 d 21)	9,820 2,681	80. 1  % 8 9 10 00 00 13 14 15 16 00 00 19 20 21 22	2 3 4 110,028 30,038 27,357 1,402 1,402 1,397 0 1,397	000 000 000 000 000 000 000 000
Processing to the page of the processing of the processing of the processing of the page of the processing of the proces	a 36	• 11 12	9,820 2,681	80. 1  % 8 9 10 000 13 14 15 16 000 19 20 21 22 23	2 3 4 110,028 30,038 27,357 1,402 1,402 1,397 0 1,397 0	000 000 000 000 000 000 000 000
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<b>FORM</b>	740	un i	2010	١
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Page 2 of 4

	FUND/TAX PAYMENT SUMMARY		1 205	
	Enter amount from page 1, line 30. This is your Total Tax Liability	• 31	1,397	00
32	(a) Enter Kentucky income tax withheld as shown on attached	00		
	2010 Form W-2(s) and other supporting statements	00		
	(b) Enter 2010 Kentucky estimated tax payments	00		
	(c) Enter 2010 refundable certified rehabilitation credit (KRS 141,382(1)(b)) • 32(c)	00		
	(d) Enter 2010 film industry tax credit (KRS 141.383)	00		
	(e) Enter Nonresident Withholding from Form PTE-WH, line 9 (KRS 141.206(4)(b)(1)) • 32(e)	• 33	1	00
	Add lines 32(a) through 32(e)	34		00
	nd Contributions; See instructions.   (Enter amount(s) checking the struction of the structure of the struct			
35	Nature and Wildlife Fund	00		
36	Data Data Data Data	00		
37	Veterans' Program Trust Fund	00		115
38	B 444 D 454	00		
39	Add lines 35 through 38	39		00
40		• 40		00
41	PEFLIND	• 41		00
42	If line 31 is larger than line 33, enter ADDITIONAL TAX DUE	• 42	1,397	00
	(a) Estimated tax penalty and/or interest. Check if Form 2210-K attached • 43(a)	00		
	(b) Interest • 43(b)	00		
	(c) Late payment penalty • 43(c)	00		
	(d) Late filing penalty • 43(d)	00		
		-		200
44	Add lines 43(a) through 43(d). Enter here	• 44		00
44 45	Add lines 43(a) through 43(d). Enter here	• 44 45	1,397	00
	Add lines 43(a) through 43(d). Enter here	-	1,397 OFFICIAL USE ONLY	-
45	Add lines 43(a) through 43(d). Enter here	-	1,397 OFFICIAL USE ONLY	00
45 SE	Add lines 43(a) through 43(d). Enter here	-	1,397 OFFICIAL USE ONLY	00
45 SE	Add lines 43(a) through 43(d). Enter here	-	1,397	00
45 SE 1	Add lines 43(a) through 43(d). Enter here	45	1,397	WR
45 SE 1	Add lines 43(a) through 43(d). Enter here	45 1 2	1,397	00 WR
45 SE 1 2 3	Add lines 43(a) through 43(d). Enter here	45 1 2 3	1,397 OFFICIAL USE ONLY PV	00 00 00
3 4	Add lines 43(a) through 43(d). Enter here	1 2 3 4	1,397 OFFICIAL USE ONLY PV	00 00 00 00
3 4	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5	1,397 OFFICIAL USE ONLY PV	00 00 00 00
3 4 5 6	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5	1,397 OFFICIAL USE ONLY PV	00 00 00 00 00
SE 1 2 3 4 5 6 7	Add lines 43(a) through 43(d). Enter here	1 2 3 4 6 6	1,397 OFFICIAL USE ONLY PV	00 00 00 00 00 00
SE 1 2 3 4 5 6 7	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8	1,397 OFFICIAL USE ONLY PV	000 000 000 000 000 000
SE 1 2 3 4 5 6 7	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8	1,397 OFFICIAL USE ONLY PV	00 00 00 00 00 00 00 00 00
SE 1 2 3 4 5 6 7 8 9	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8	1,397 OFFICIAL USE ONLY PV	00 00 00 00 00 00 00 00 00
SE 1 2 3 4 5 6 7 8 9 10	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10	1,397 OFFICIAL USE ONLY PV	00 00 00 00
SE 1 2 3 4 5 6 7 8 9 10 11	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10 11	1,397 OFFICIAL USE ONLY PV	00 00 00 00 00 00 00 00 00
45 SE 1 2 3 4 5 6 7 8 9 10 11 12	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10 11	1,397 OFFICIAL USE ONLY PV	00 00 00 00 00 00 00 00 00 00 00
45 SE 1 2 3 4 5 6 7 8 9 10 11 12 13	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 6 7 8 9 10 11 12 13	1,397 OFFICIAL USE ONLY PV	00 00 00 00 00 00 00 00 00 00 00 00
45 SE 1 2 3 4 5 6 7 8 9 10 11 12 13 14	Add lines 43(a) through 43(d). Enter here	45 1 1 2 3 4 5 6 6 7 8 9 10 11 12 13 14	1,397 OFFICIAL USE ONLY PV	00 00 00 00 00 00 00 00 00 00 00 00
45 SE 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15	Add lines 43(a) through 43(d). Enter here	45 1 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15	1,397 OFFICIAL USE ONLY PV	00 00 00 00 00 00 00 00 00 00 00 00 00
SE 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16	Add lines 43(a) through 43(d). Enter here	45 1 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16	1,397 OFFICIAL USE ONLY PV	000 000 000 000 000 000 000 000 000 00
SE 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17	1,397 OFFICIAL USE ONLY PV	000 000 000 000 000 000 000 000 000 00
45 SE 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17	Add lines 43(a) through 43(d). Enter here	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17	1,397 OFFICIAL USE ONLY PV	000000000000000000000000000000000000000

<u> </u>	)10)	The second secon						Page 3 of 4
ECTION B-PERSON	NAL TAX CREDITS	Check Regular	Check both if	65 or over Ch	eck both if bl	nd	44-7	
1 (a) Credits for yo (b) Credits for sp				3		1	Enter number o boxes checked on line 1	1 1
2 Dependents:						2	Enter number o dependents wh	
£36	V2440.00000		Dependent's	Dependent's relationship	Check if quali child for far	nity	lived with you	
First name	Last name	Socia	al Security number	to you	size tax cre	OIE .	did not live w (see instruction	ith you
	32							
With the second					+H	-	other dependent	ents, L
8.	W 10 10		1-	W.		e e e e e e e e e e e e e e e e e e e		
Add lines 1 and 2	and enter here		*******************	1-11				
Multiply credits o	n line 3 by \$20. Enter	here and on page	1. line 17					4 20
	SIZETAX CREDIT (Lis	ı	ľ			hat are no	i	
	SIZE TAX CREDIT {Lis	st the name and So Social Secur	ľ	umber of qualifyi	ing children t	hat are no	i	ependents in Security number
ECTION C—FAMILY ection B.)  tst name  A copy of pages  the undersigned, department of the best of my known provisions of Region all taxes accruing	1 and 2 of your feder eclare under penalties wedge and belief, it is ulation 103 KAR 17:02 under this return.	ral income tax re s of perjury that I is true, correct and 0 will result in refu	turn and all sup have examined complete. I also	pporting schede	Lest name ules must be ding all acco	e attached mpanying ir election ach of us l	schedules and to file a combineing jointly an	Form 740-NR.  I statements, and ined return under a severally liable
ECTION C—FAMILY ection B.)  sst name  A copy of pages  the undersigned, do the best of my known provisions of Region all taxes accruing our Signature (If joint reference).	Last name  1 and 2 of your fede colare under penalties Medge and belief, it is ulation 103 KAR 17:02 under this return.	s of perjury that I is true, correct and 0 will result in refu	turn and all sugnave examined complete. I also unds being made	pporting schede this return, inclu understand and payable to us jo	Last name	e attached mpanying ir election ach of us l	Social state of the Kentucky schedules and to file a combi	Form 740-NR.  I statements, and ined return under a severally liable
ECTION C—FAMILY ection B.)  sst name  A copy of pages  the undersigned, do the best of my known provisions of Region all taxes accruing our Signature (If joint reference).	1 and 2 of your feder eclare under penalties wedge and belief, it is ulation 103 KAR 17:02 under this return.	s of perjury that I is true, correct and 0 will result in refu	turn and all sup have examined complete. I also	pporting schede this return, inclu understand and payable to us jo	Lest name ules must be ding all acco	e attached mpanying ir election ach of us l	schedules and to file a combineing jointly an	Form 740-NR.  I statements, and ined return under a severally liable
ECTION C—FAMILY ection B.)  Ist name  A copy of pages  the undersigned, de the best of my know he provisions of Regular all taxes accruing our Signature [If joint reterpted or Printed Name of	Last name  1 and 2 of your fede colare under penalties Medge and belief, it is ulation 103 KAR 17:02 under this return.	s of perjury that i is true, correct and 0 will result in refu	turn and all sugnave examined complete. I also unds being made	pporting schede this return, inclu understand and payable to us jo	Last name	e attached mpanying ir election ach of us l	schedules and to file a combineing jointly an	Form 740-NR.  I statements, and ined return under a severally liable
ECTION C—FAMILY ection B.)  sst name  A copy of pages  the undersigned, do the best of my known provisions of Region all taxes accruing our Signature (If joint reference).	1 and 2 of your feder and 2 of your feder ender penalties wiedge and belief, it is ulation 103 KAR 17:02 under this return.	s of perjury that i is true, correct and 0 will result in refu	turn and all suphave examined complete. I also unds being made	pporting scheduthis return, incluunderstand and a payable to us jo	Last name ules must be ding all acco agree that or intly and in e	e attached mpanying ir election ach of us l	schedules and to file a combineing jointly an	Form 740-NR.  I statements, and ined return under a severally liable



Page 4 of 4

	CTION D COME		A.Total from Attache Federal Return	d	B.Kentucky	
1	Enter all wages, salaries, tips, etc. (attach wage			00		00
-	and tax statements) Do not include moving expense reimbursements			00		00
	Moving expense reimbursement (attach Schedule ME)			00		00
3	Interest			00		00
4	Dividends	CONTROL OF STREET		00		00
5	Taxable refunds, credits or offsets of state and local income taxes			-		1
6	Alimony received		115 420	00	24 120	00
7	Business income or loss (attach federal Schedule C or C-EZ)	7	115,430	00	34,120	00
8	Capital gain or loss (attach federal Schedule D)			00		00
9	Other gains or losses (attach federal Form 4797)	9		00		00
10	(a) Federally taxable IRA distributions, pensions and annuities	10(a)		00		00
	(b) Pension income exclusion (attach Schedule P if more than \$41,110)	10(b)				00
11	Rents, royalties, partnerships, estates, trusts, etc. (attach federal Schedule	E) 11		00		00
12	Farm income or loss (attach federal Schedule F)	12		00		00
13	Unemployment compensation (see instructions)	13		00	NOTICE OF THE PROPERTY OF	00
14	Taxable Social Security benefits	14		00		
16	Gambling winnings	15		00		00
16	Other income (list type and amount)			5000		
		16		00		00
17	Combine lines 1 through 16. This is your Total Income	17	115,430	00	34,120	00
AD	JUSTMENTS TO INCOME					١.,
18	RESERVED	18		00		00
19	Certain business expenses of reservists, performing artists and fee-basis government officials (attach federal Form 2106 or 2106-EZ)	19		00		00
20	Health savings account deduction (attach federal Form 8889)	20	5,402	00		00
21	Moving expenses (attach Schedule ME)	21		00		00
22	Deduction for one-half of self-employment tax	22		00		00
23	Self-employed SEP, SIMPLE, and qualified plans deduction	23		00		00
24	Self-employed health insurance deduction	24		00		
25	Penalty on early withdrawal of savings			00		00
26	Alimony paid (enter recipient's name and Social Security number)			1		
		26		00		00
27	IRA deduction	27		00		00
28	Student loan interest deduction	28		00		00
29	RESERVED	29		00		00
30	Domestic production activities deduction	30		00		00
31	Long-term care insurance premiums (see instructions)	31			2,000	00
32	Health insurance premiums (see instructions)	32			2,082	00
33	Other deductions (list type and amount)					
		33		00		00
34	Add lines 18 through 33. Total Adjustments to Income		5,402	00	4,082	00
			110 000		20.000	
_	Subtract line 34 from line 17. This is your Adjusted Gross Income	35	110,028	00	30,038	00
36	Divide line 35, Column B, by line 35, Column A. If amount is equal to or greater than 100%, enter 100%. This is your Percentage of Kentucky	-	10.162	_	<u>1</u> 11.0000	
	Adjusted Gross Income to Federal Adjusted Gross Income	36	2	7	. 3 %	

# Example 4

## **Fact Pattern:**

Frank and Michele Gehry moved into Kentucky from Colorado because of a job transfer. Because the move occurred early in the year, the majority of the residents of Gehry's income earned while Kentucky. was

42A7 Depar of Rev	Check if return is: Amended (Attack copy of original return value) Calendar year or other taxeble year begi	n.)	INC	TUCKY INDIVID OMETAX RETU	JRN	Kentuc 201	が 0
roi ci			Tiomcaid	Cit of Fait Tour	riosidone		
	A. Spouse's Social Security Number	B. Your Social Security Number					
	041-74-8383	120-56-5777					
1	Name—Last, First, Middle Initial (Joint or com	blned return, give both names and initials.}					
- 40	Gehry, Frank J. & M	ichele M.					
В	Mailing Address (Number and Street or P.O. B	ox) Apartment Number					
١ -							
-	City, Town or Post Office	State ZIP Code					
$\perp$	Hebron	KY 41048					
	ug 1 Single			POLITICA	L PARTY FU	ND	
FILIN STAT		oint return.	Design	nating \$2 will not c	hange your A. Spouse	refund or ta: B. Your	
lsee	2 Adorriod filing	separate returns. Enter spouse's Social Security	Den		(1)	(4)	Ï
		and full name here.	100	ublican	(2)	(5)	
			No	Designation	(3) 🗸	(6)	/
5		ent of a reciprocal state with Kentucky income salaries only. Circle the state of residence.	TING LINES	TUPOUGU 20	OH VA OFFIC	CIAL USE ONL	
			TING LINES			CIAL USE ONL	
INCO	COMPLETE SECTIONS A, B, CAI	salaries only. Circle the state of residence.			OFFIC	CIAL USE ONL	<u> </u>
INCO	COMPLETE SECTIONS A, B, CAI  OME/TAX  Enter percentage from page 4, line	ealaries only. Circle the state of residence.  ND D ON PAGES 2THROUGH 4 BEFORE COMPLE	.> 7	7THROUGH 30.	OFFIC 1 2	CIAL USE ONL	5
INCO 7 I 8 I	COMPLETE SECTIONS A, B, CAI DME/TAX Enter percentage from page 4, line Enter amount from page 4, line 35	salaries only. Circle the state of residence.  ND D ON PAGES 2 THROUGH 4 BEFORE COMPLE  a 36.	> 7	85 . 0 %	OFFIC 1 2	CIAL USE ONLY	00
NCO 7 1 8 1 9 1	OCOMPLETE SECTIONS A, B, CAI DME/TAX Enter percentage from page 4, line Enter amount from page 4, line 35 Enter amount from page 4, line 35	ealaries only. Circle the state of residence.  ND D ON PAGES 2THROUGH 4 BEFORE COMPLE  36	ncome	85 . 0 % 8 8 8 8 8 8 9	OFFIC 1 2	3 4 56,113	00
INCO 7   8   9   10	O COMPLETE SECTIONS A, B, C AI DME/TAX Enter percentage from page 4, line Enter amount from page 4, line 35 Enter amount from page 4, line 35 Nonitemizers: Enter \$2,210 (do no	salaries only. Circle the state of residence.  ND D ON PAGES 2 THROUGH 4 BEFORE COMPLE  3 36	ncome	85 . 0 % 8 8 8 8 8 8 9	OFFIC 1 2	3 4 56,113	00
INCO 7 1 8 1 9 1 10 1	O COMPLETE SECTIONS A, B, C AI OME/TAX Enter percentage from page 4, line 35 Enter amount from page 4, line 35 Enter amount from page 4, line 35 Nonitemizers: Enter \$2,210 (do no Itemizers: Enter itemized deduction	ealaries only. Circle the state of residence.  ND D ON PAGES 2THROUGH 4 BEFORE COMPLE  36	> 7	85 . 0 %	OFFIC 1 2	3 4 56,113	00
9 (10 11 11 11 11 11 11 11 11 11 11 11 11 1	O COMPLETE SECTIONS A, B, C AI DME/TAX Enter percentage from page 4, line Enter amount from page 4, line 35 Enter amount from page 4, line 35 Nonitemizers: Enter \$2,210 (do no Itemizers: Enter itemized deduction Multiply line 11 by the percentage	ealaries only. Circle the state of residence.  ND D ON PAGES 2THROUGH 4 BEFORE COMPLE  36	ncome	85 . 0 %  • 8 • 9 10 00	0FFIC 1 2	56,113 47,742 2,210	00
9 ( 10 ( 11 ( 12 ( 13 (	O COMPLETE SECTIONS A, B, C All DME/TAX Enter percentage from page 4, line Enter amount from page 4, line 35 Enter amount from page 4, line 35 Nonitemizers: Enter \$2,210 (do no Itemizers: Enter itemized deductio Multiply line 11 by the percentage Subtract line 10 or 12 from line 9,	ealaries only. Circle the state of residence.  NDD ON PAGES 2THROUGH 4 BEFORE COMPLE  e 36	ncomes Income	85 . 0 %  8	0FFIC 1 2	56,113 47,742 2,210 45,532 2,458	000
INCO 7   8   9   6   10   11   11   11   11   11   11	O COMPLETE SECTIONS A, B, CAI DME/TAX Enter percentage from page 4, line Enter amount from page 4, line 35 Enter amount from page 4, line 35 Nonitemizers: Enter \$2,210 (do no Itemizers: Enter itemized deduction Multiply line 11 by the percentage Subtract line 10 or 12 from line 9, Enter tax from Tax Table	ealaries only. Circle the state of residence.  NDD ON PAGES 2THROUGH 4 BEFORE COMPLE  a 36	ncomes Income	85 . 0 %	0FFIC 1 2	56,113 47,742 2,210 45,532 2,458 1,231	000
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Page 2 of 4

	FUND/TAX PAYMENT SUMMARY										
31	Enter amount from page 1, line 30. This is your Total Ta	x Liabili	ty	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,				31		1,159	00
32	(a) Enter Kentucky income tax withheld as shown on				Г						
	2010 Form W-2(s) and other supporting statements							00			
	(b) Enter 2010 Kentucky estimated tax payments				100000			00			
	(c) Enter 2010 refundable certified rehabilitation credi				**************************************			00		a de la companya de	
	(d) Enter 2010 film industry tex credit (KRS 141.383)					li a	_	00			
22	(e) Enter Nonresident Withholding from Form PTE-WH, li	187				and a contract of the		33			00
	Add lines 32(a) through 32(e)							34			00
	nd Contributions; See instructions.	HID (See	matruc			nter amount		0.10	40.64		100
35	Nature and Wildlife Fund	\$10	\$25	\$50	Other	• 35		00			
36	Child Victims' Trust Fund	\$10	\$25	\$50	Other	• 36		00			
37	Veterans' Program Trust Fund	\$10	\$25	\$50	Other	• 37		00	<b>E</b>		
38	Breast Cancer Research/Education Trust Fund	_	\$25	\$50	Other	• 38	1	00			
39	Add lines 35 through 38			_				39			00
40	Amount of line 34 to be CREDITED TO YOUR 2011 EST							40	0.0000000		00
41	Subtract lines 39 and 40 from line 34. Amount to be RI							41			00
	If line 31 is larger than line 33, enter ADDITIONAL TAX							42		1,159	00
	(a) Estimated tax penalty and/or interest.  Check if							00			
	(b) Interest							00			
	(c) Late payment penalty					1		00		021 02	
	(d) Late filing penalty							00			
aa											
	Add lines 43(a) through 43(d). Enter here							44		119	00
	Add lines 43(a) through 43(d). Enter here			***************************************			WE	44 45		119 1,278	-
	Add lines 42 and 44 and enter here. This is the AMOUI	NT YOU (	OWE			o			OF		-
		NT YOU ( r visit wy	OWE	enue.ky.ç	gov for more	o			OF	1,278	00 00 WR
45	Add lines 42 and 44 and enter here. This is the AMOUI  Make check payable to Kentucky State Treasurer or Write your Social Security number and "KY Income	visit wv e Tax — 20	OWE	enue.ky.ç	gov for more	o			OF	1,278	00
45 SE	Add lines 42 and 44 and enter here. This is the AMOUI  Make check payable to Kentucky State Treasurer or Write your Social Security number and "KY Incom CTION A—BUSINESS INCENTIVE AND OTHER TAX CRE	NT YOU ( r visit wv e Tax — 20 DITS	OWE ww.reve 010" on	enue.ky.ç	gov for more	o			OF	1,278	00
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2 Dependents:							<ol><li>Enter number of dependents wh</li></ol>		
First name	Last name	Soc	Dependent's ial Security number	Dependent's relationship to you	Check if que child for size tax	family	<ul> <li>lived with you</li> </ul>	u	2
Devon	Gehry		5-75-5593	Son	IV	1	did not live w	ith you	
McKenna	Gehry		1-56-6135	Daughter	1		(see instruction	ons)	
10/23							<ul> <li>other depend</li> </ul>	ents	
3 Add lines 1 and 2	? and enter here		***************************************					• 3	4
Multiply credits of	on line 3 by \$20. Enter f							4	x \$20 80
305		AME				1			
irst name	Last name	Social Secu	rity number Fire	t name .	Last nam		Social S	Security nu	
*				t name	Last nam	0	Social 8	Security nu	mher
A copy of pages	1 and 2 of your feders	al income tax r	etum and all supp	oorting schedu	Last nam	be attache	Social (	Security nul	nhar
A copy of pages  the undersigned, do the best of my know	1 and 2 of your federa eclare under penalties of wledge and belief, it is to ulation 103 KAR 17:020	of perjury that I	eturn and all supplements the same and all supplements the same and th	porting schedu	Lest nam	be attache	Social state of the Social	Form 74	O-NP.
, the undersigned, de	1 and 2 of your federa eclare under penalties of wledge and belief, it is to ulation 103 KAR 17:020 under this return.	of perjury that I true, correct and will result in ref	eturn and all supplements the same and all supplements the same and th	oorting schedu is return, includ nderstand and a ayable to us joi	Lest nam	be attache companyin our electio each of us	Social state of the Social	Form 74 I stateme	o-NR ents, and rn under lly liable
A copy of pages  the undersigned, do the best of my know the provisions of Region all taxes accruing	1 and 2 of your federa eclare under penalties of wledge and belief, it is to ulation 103 KAR 17:020 under this return.	of perjury that I true, correct and will result in ref	etum and all supp have examined th complete, I also u unds being made p	oorting schedu is return, includ inderstand and a nayable to us joi	les must	be attache companyin our electio each of us	Social s and to Kentucky ag schedules and on to file a combi a being jointly an	Form 74 I stateme	o-NR ents, and rn under lly liable
A copy of pages  the undersigned, do the best of my know the provisions of Region all taxes accruing	1 and 2 of your federal eclare under penalties wledge and belief, it is to ulation 103 KAR 17:020 under this return.	of perjury that I true, correct and will result in ref	have examined the complete. I also unde being made p	oorting schedu is return, includ inderstand and a nayable to us joi	Lest name les must ding all accargree that nativ and in	be attache companyin our electio each of us	Social s and to Kentucky ag schedules and on to file a combi a being jointly an	Form 74 I stateme	o-NR ents, and rn under lly liable
A copy of pages  the undersigned, do the best of my know the provisions of Region ell taxes accruing four Signature (if joint ret	1 and 2 of your federa eclare under penalties wiedge and belief, it is tulation 103 KAR 17:020 under this return.	of perjury that I true, correct and will result in ref	have examined the complete. I also usunds being made parties and signature.	porting schedu is return, includ nderstand and a payable to us joi	Lest name les must ling all according all according and in the late late late late late late late lat	be attache companyin our electio each of us	Social s and to Kentucky ag schedules and on to file a combi a being jointly an	Form 74 I stateme	o-NR ents, and rn under lly liable



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	CTION D COME		A.Total from Attache Federal Return	ď	B. Kentucky	_
1	Enter all wages, salaries, tips, etc. (attach wage and tax statements) Do not include moving expense reimbursements		56,113	00	47,742	00
2	Moving expense reimbursement (attach Schedule ME)			00		00
	Interest			00		00
12	Dividends			00		00
5	Taxable refunds, credits or offsets of state and local income taxes			00		00
6	Alimony received			00		00
7	Business income or loss (attach federal Schedule C or C-EZ)			00		00
R	Capital gain or loss (attach federal Schedule D)	2000 DE 1000 D		00		00
9	Other gains or losses (attach federal Form 4797)	1		00		00
9.0	(a) Federally taxable IRA distributions, pensions and annuities			00		00
10	(b) Pension income exclusion (attach Schedula P if more than \$41,110)	25		33%	(	00
11	Rents, royalties, pertnerships, estates, trusts, etc. (attach federal Schedule E			00		00
	Farm income or loss (attach federal Schedule F)			00		00
	Unamployment compensation (see instructions)	720 at 125 a		00		00
				00		
	Taxable Social Security benefits	THE REAL PROPERTY OF THE PERSON NAMED IN		00		00
15	Gambling winnings	15		-		-
16	Other income (list type and amount)			00		00
17	Combine lines 1 through 16. This is your Total Income	16 17	56,113	00	47,742	00
	JUSTMENTS TO INCOME					
	RESERVED	18		00		00
	Certain business expenses of reservists, performing artists and fee-basis government officials (attach federal Form 2106 or 2106-EZ)			00		00
20	Health savings account deduction (attach federal Form 8889)			00		00
	Moving expenses (attach Schedule ME)			00		00
	Deduction for one-half of self-employment tax	100000		00		00
	Self-employed SEP, SIMPLE, and qualified plans deduction			00		00
	Self-employed health insurance deduction			00	WZATES CONTROL OF	
	Penalty on early withdrawal of savings	1		00		00
	Alimony paid (enter recipient's name and Social Security number)					
		26		00		00
27	IRA deduction			00		00
	Student loan interest deduction			00		00
29	RESERVED			00		00
30	Domestic production activities deduction			00		00
	Long-term care insurance premiums (see instructions)	1				00
	Health insurance premiums (see instructions)	17				00
	Other deductions (list type and amount)					Г
	Other deductions first type and amount			00		00
34	Add lines 18 through 33. Total Adjustments to Income	33 34		00		00
					(22.21)	
_	Subtract line 34 from line 17. This is your Adjusted Gross Income	35	56,113	00	47,742	00
36	Divide line 35, Column B, by line 35, Column A. If amount is equal to or					
	greater than 100%, enter 100%. This is your Percentage of Kentucky Adjusted Gross Income to Federal Adjusted Gross Income	00	8	5	. 0 %	

# **Appendix**

#### 141.010 Definitions for chapter.

As used in this chapter, unless the context requires otherwise:

- (17) "Resident" means an individual domiciled within this state or an individual who is not domiciled in this state, but maintains a place of abode in this state and spends in the aggregate more than one hundred eighty-three (183) days of the taxable year in this state:
- (18) "Nonresident" means any individual not a resident of this state;

## 03 KAR 17:010. Residence.

RELATES TO: **KRS 141.020** 

STATUTORY AUTHORITY: KRS Chapter 13A

NECESSITY, FUNCTION, AND CONFORMITY: This administrative regulation provides guidelines for determining whether a person qualifies as a resident or nonresident for Kentucky income tax purposes and provides special instruction to cover some of the more common problem areas.

Section 1. Resident. "Resident" means any individual domiciled within Kentucky on the last day of the taxable year and includes any individual who spends more than 183 days in Kentucky and maintains a place of abode in Kentucky during this period. All other individuals are nonresidents.

Section 2. Nonresident Requirements. To qualify as a nonresident, the taxpayer shall submit proof of his bona fide intention to reside permanently elsewhere before the last day of the taxable year, and that he has spent less than 183 days in Kentucky. If any person who has moved out of Kentucky returns to Kentucky within six (6) months from the time he had moved, it shall be construed that the removal from Kentucky was not intended to be permanent and such person shall be considered a resident during the time in which his abode may have been elsewhere. Any person changing his domicile during a taxable year may also be required to furnish evidence of compliance with requirements of the other state with respect to taxation and qualifications as a resident citizen. Persons residing in Kentucky and living part of the year in other states will be considered residents of Kentucky unless it can be shown that abode in another state is of permanent nature, and that less than 183 days were spent in Kentucky.

**Section 3**. Domicile. Generally, a domicile is the place where an individual has established permanent resident. A domicile once obtained continues until a new one is acquired. Domicile is not changed by removal for a definite period or for incidental purposes. To constitute a change, there must be intent to change, actual removal, and a new abode.

**Section 4. Nonresident Citizens**. An individual residing in a foreign country who is permitted to file federal income tax returns as a nonresident citizen, and who immediately prior to residing in a foreign country was domiciled in Kentucky, is presumed to be a Kentucky resident and is required to file a resident Kentucky income tax return. Such individual may, however, overcome this presumption by presenting sufficient evidence that the Kentucky domicile has been abandoned.

**Section 5. Federal Employees**. Federal employees working outside of Kentucky but having a domicile in Kentucky are taxable as residents. Such persons, once domiciled in Kentucky, are considered Kentucky a resident if a domicile has not been established elsewhere. If the individual's domicile is claimed to be outside Kentucky, the requirements of Section 3 of this administrative regulation must be met.

**Section 6. Military Personnel**. Under the provisions of the Soldiers' and Sailors' Civil Relief Act of 1940 as amended, a member of the Armed Forces retains the domicile which he had when he entered military service. Persons domiciled in Kentucky at the time of induction will continue to be liable for the payment of Kentucky income taxes on all income regardless of where their military services are performed. However, military personnel (usually career personnel) may change their domicile from Kentucky to another state as any other individual. Conclusive evidence must be submitted showing that their Kentucky domicile has been abandoned and a new domicile established in another state.

Section 7. Reciprocity States. (1) Kentucky has reciprocal tax agreements with the states of Indiana, Illinois, Michigan, Ohio, Virginia, West Virginia, and Wisconsin. These agreements provide that salaries and wages earned in Kentucky by residents of those states are exempt from Kentucky income tax. Kentucky residents are exempt from income tax, imposed by such states, on salaries and wages earned there. The Virginia Agreement, however, applies only to taxpayers who commute daily to their employment in the nonresident state.

(2) A Kentucky resident, working in one (1) of the states listed above, must file the required certificate of nonresidence with his employer. That certificate is the employer's authority to exempt the employee's income from withholding. A resident of a state listed above must file Revenue Form 41A809, Certificate of Nonresidence, with his Kentucky employer to exempt his income from Kentucky withholding. (II-1-1; 1 Ky.R. 328; eff. 2-5-75; Am. 10 Ky.R. 43; eff. 8-3-83.)